

Global Data Watch

- Early 1Q GDP releases delivered upside surprises as March looks strong
- Inflation forecast bias is upward for DM services and EM food prices
- G-3 CBs remain patient but picture more mixed elsewhere
- Next week: Big April with global PMI and US job gains; BCB hikes

Conscious bias training

Early first-quarter GDP reports have surprised to the upside—repeating a pattern from the previous two quarters in which downward GDP revisions as the quarter began were subsequently reversed (Figure 1). Upside surprises from the US, Korea, and Taiwan this week—as well as upgrades to projections elsewhere—boost our tracking of 1Q21 global GDP growth to 3.2% ar. While this outcome represents a marked downshift from the boomy 7.5% ar gain in 4Q20, it is 2%-pts higher than our forecast at the start of the quarter. Part of last quarter's upside surprise can be attributed to a bigger-than-expected US fiscal policy package in March. But it is the interaction of two other related forces that explains broad-based strength. First, fears about a second-wave pandemic drag as we turned into the new year were calmed by effective targeted restrictions. Second, business spending proved resilient. Consistent with the signal from our capex nowcaster for a 15% ar gain, economies that have reported expenditure details (i.e., the US, Korea, and Taiwan) marked double-digit capex increases in 1Q21.

This forecasting experience provides context for tracking the current quarter. Although we expect growth to bounce back to a 5.9% ar on the heels of a consumer rebound, we have lowered our sights on 2Q21 GDP sharply in recent weeks as a result of pandemic drags in Europe and EM. But the news on March consumption has been stronger than expected, punctuated by the 3.6% m/m US gain reported this week. At the same, April business surveys have been impressive and our capex nowcaster continues to track double-digit annualized growth. With mobility holding stable and vaccine rollouts gathering pace in Europe, the bias is once again for current-quarter growth forecasts to move higher as activity is reported. Next week's April readings should reinforce this point. We look for the global PMI to rise to its highest level in seven years (55.4) and US payrolls to surge another million.

Upside surprises are not confined to GDP. Inflation also surprised to the upside last quarter, with the global CPI marking its fastest quarterly gain in over a decade. Our [analysis](#) highlights a set of transitory factors contributing to the



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Figure 1: Global real GDP, revisions

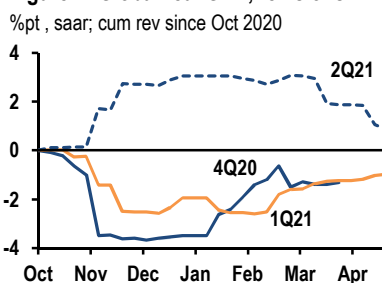
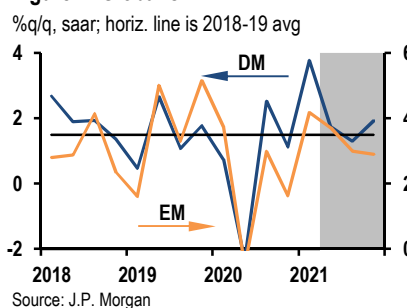


Figure 2: Global CPI



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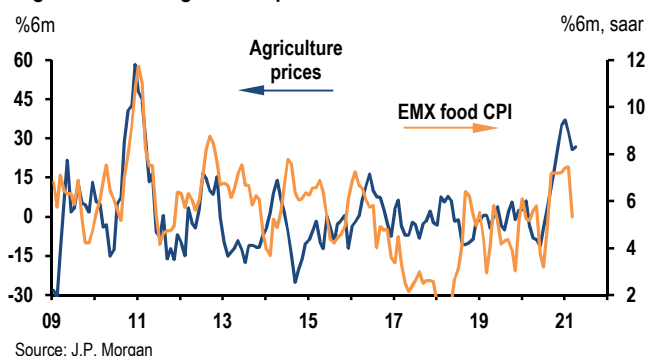
gain—notably services price increases in Europe and Japan. Consequently, inflation is likely to moderate this quarter, underscored by this week’s Euro area flash and Japan’s Tokyo readings for April. But a combination of boomy global growth and significant bottleneck price pressures should limit any deceleration, keeping over-year-ago headline and core inflation on an upward trajectory. Our bottom-up forecast sees the global CPI rising 2.7% this year, a dramatic acceleration from its 1.2% rise in 2021.

Despite the projected rise, our inflation forecasts have the same upside risk we see in our growth outlook. The sequential pace of price gains embedded in the forecast implies inflation returns to its trend pace in both DM and EM economies through the rest of the year (Figure 2). Such an outturn is belied by the latest survey data and pipeline price indicators pointing to persistently elevated prints. In the US the focus is on the response of services price inflation to the coming surge in services spending. This week’s PCE price report suggests that prices are picking up along with activity, as market-based services prices rose 0.4%/m/m in each of the past two months.

Food for thought in EM inflation

Commodity prices have rallied sharply in the last two weeks, and many are trading in backwardation with the price for near-term deliveries trading above the prices for future-date deliveries. This signals immediate physical shortages in oil, gasoline, copper, and most agricultural commodities. For EM it is rising agricultural prices, coupled with EM FX weakness in high-yielders, that is likely to keep inflation momentum firm (Figure 3). The relationship between agricultural commodity prices and CPI food prices appears to have weakened in EM—and was never strong in DM where food commodities make up a small share of the consumption basket. But food still accounts for around 25% of EM CPI baskets and our forecasts do not fully incorporate this recent surge.

Figure 3: Global agriculture prices and EM ex China food CPI



Our research shows that EM food price inflation has not materially passed through to core inflation over the past decade, and many EM central banks can look through such shocks. The central question from this move is its indirect effect on core inflation as it signals broader pressures accompanying boomy global growth. Around a global forecast that already incorporates a significant acceleration in headline and core inflation, the risks to our inflation forecast seem skewed to the upside and it now seems reasonable to expect global CPI inflation to rise to 3% or higher this year.

Most DM central banks remain dovish

As signs of a rebound in midyear growth build, DM central banks have begun to acknowledge the stronger near-term outlook. However, most remain committed to their very accommodative stances and are looking through inflation pickups. For the Fed and the RBA, this reflects their shifts to reaction functions designed to engineer an inflation overshoot. For the ECB and BoJ reaction functions have not clearly shifted, but large persistent projected inflation misses warrant patience. Those central banks with relatively stable reaction functions and relatively high inflation are the ones for which the recent news could generate shifts in guidance.

- While this week’s FOMC statement noted firming activity and employment, Chair Powell was adamant that it would be “some time” before enough progress was evident in the data to warrant talking about tapering. Against the backdrop of surging growth, we expect a discussion on tapering to begin at midyear but see no change in rate guidance in the coming months.
- Last November the RBA adopted an analogue of the Fed’s average inflation targeting framework and it has been notably dovish, with an early extension of QE in February. It has emphasized achieving a tight labor market with 3% wage growth before considering rate hikes. Consistent with this approach, we look for the RBA to roll its 3-year YCC target at next week’s meeting, and delay dropping YCC until the initial strong phase of the recovery has passed.
- The BoJ marked up its growth projections this week, but forecasted just 1% core inflation in its first published projection for FY23. This represents a capitulation on how quickly Japanese inflation is expected to return to target, but no further easing is expected.
- The Bank of Canada has started tapering its QE purchases, and together with the Norges Bank has discussed raising policy rates before the end of next year. We think the Bank of England could hint at a rate hike in late 2022 alongside upgraded forecasts at next week’s meeting. Slowing the asset purchase pace and balance sheet guidance are likely in

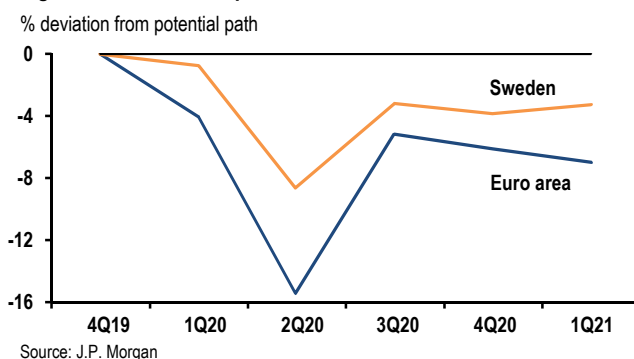
August, but the BoE remains committed to completing the £150bn of additional QE it announced in November.

China's demand rotation is underway

Having downshifted at the start of the year—in part due to cross-region travel restrictions imposed during the Lunar New Year—we expect China to settle at trend-like 6% growth over the coming quarters. Tracking the economy's path will be complicated by expected divergence in domestic demand.

We look for acceleration in consumption and service-sector activity. A March retail spending rebound was the first step on this path, and the April NBS PMI registered solid upticks in service sectors negatively affected by the travel restrictions. Data also point to strong upcoming Labor Day travel: through April 22, air ticket, hotel, and scenic site ticket bookings were all higher than 2019 levels. A material decline in the credit impulse is also expected, which will weigh on the real estate sector. Credit tightening is also triggering market turbulence related to Huarong's debt repayment and increases in SOE bond defaults. We believe the government can manage financial stress, in part due to its unique ability to influence both the asset and liability sides of the financial sector balance sheet. Although the increasing tolerance of bond defaults likely will widen credit premiums, we expect that risk-free market interest rates will remain relatively stable.

Figure 4: Western Europe real GDP



Sweden chooses growth over containment

In Western Europe, approaches to managing the pandemic shaped 1Q21 growth outcomes. In Sweden, which did not resort to lockdown-like measures to control new infections, GDP expanded 4.4%q/q, saar—returning to its 4Q19 level. This growth well exceeded the -2.5%q/q, saar last quarter in the Euro area, where restrictions were tightened further relative to 4Q20. Activity has remained consistently stronger in Sweden, where 1Q21 GDP is currently 3.3% below its pre-crisis potential path (Figure 4). This compares to a 7% Euro area shortfall. But the stronger Swedish growth performance

has come at a cost: population-adjusted average daily new caseloads in Sweden averaged around 1.5 times that of the Euro area during 1Q21.

Brazil: 75bp hike and a more hawkish tone

We expect Brazil's BCB to hike rates 75bp next week and adopt a hawkish tone. The post-meeting statement should remove the wording "partial normalization"—which had suggested reaching a terminal SELIC rate below neutral—to signal that the balance of risks is in the direction of higher-than-expected inflation. The guidance for the next decision should also indicate a reduction in the pace of hiking to 50bp given the quick adjustment of the last two meetings. However, we don't rule out the possibility that the central bank hints at a further 75bp hike at the June meeting to frontload the adjustment, reinforcing its control over inflation expectations.

India's health crisis deepens

India's second wave continues to accelerate with new daily cases approaching an unprecedented 400,000 mark. The sheer ferocity of the wave has overrun the country's health infrastructure, resulting in an alarming increase in mortality. While reluctance to lock down nationally due to fears of economic damage is contributing to this outcome, [states and regions have imposed restrictions](#) as the virus moves across the country. The economic costs are mounting and we forecast GDP to plunge at a 16% ar in 2Q. Despite this collapse, financial stability risks remain modest as the banking system is flush with liquidity and the RBI's intervention has been proactive. With a war chest of almost US\$600 billion in FX reserves, the RBI should have ammunition to offset any BoP pressures.

Scotland vote sets up legal battle

Next week's Scottish parliamentary elections are expected to bring a win for the SNP and to renew calls for a second referendum on independence. The UK prime minister has indicated he is likely to reject those calls, but the SNP believes that it could still proceed with a legal advisory vote given some ambiguity in the legislation underpinning Scotland's devolved powers within the UK. This could set the stage for a legal battle in the Supreme Court later this year, unless the UK moved preemptively to change the law before events went that far. Our baseline view is that a referendum won't occur during the lifetime of the current UK parliament, which runs through to 2024. The reaction of public opinion in Scotland to this sequence of events will be key, however, and is likely to shape the conviction with which each side pursues its cause.

Global economic outlook summary

	Real GDP			Real GDP						Consumer prices			
	% over a year ago			% over previous period, saar						% over a year ago			
	2020	2021	2022	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	4Q20	2Q21	4Q21	2Q22
United States	-3.5	6.7↑	4.1	4.3	6.4↑	<u>10.0</u>	8.3	3.0	3.5	1.2	3.5	2.8	2.2
Canada	-5.4	6.6↑	4.1	9.6	6.5↑	4.0	7.5	5.5	3.5	0.8	2.8	2.3	1.9
Latin America	-6.6	5.1↑	3.0↑	16.9	0.5↓	-1.1↑	3.8↑	4.1↑	3.4	3.6	5.7	4.7↑	3.6↑
Argentina	-9.9	5.8	1.7	19.4	<u>5.0</u>	-6.0	3.0	1.5	2.0	36.2	49.0	54.5	48.3
Brazil	-4.1	2.9	2.2	13.3	<u>-0.8</u>	-6.0	3.0	4.0	3.0	4.3	7.3	5.8	4.3
Chile	-5.8	6.9↑	3.4↑	30.1	<u>4.0</u>	1.0↑	8.0↑	4.5↑	3.0↓	2.9	4.0↑	3.8↑	3.3↑
Colombia	-6.8	7.5	3.6	26.5	<u>3.5</u>	2.6	4.4	5.0	2.5	1.6	2.2	3.1	3.2
Ecuador	-7.8	2.0	3.0	2.3	<u>3.0</u>	2.5	4.0	4.0	3.0	-1.1	-1.6	0.4	0.5
Mexico	-8.2	6.5	3.7	13.7	1.8↓	6.6↑	3.8	3.5	3.8	3.5	5.3	4.1	2.9
Peru	-11.1	9.9	6.1	38.1	<u>-14.0</u>	-4.0	6.0	11.0	8.0	2.2	2.0	1.9	2.3
Uruguay	-5.9	2.8	3.0	6.8	<u>0.0</u>	0.5	1.5	2.7	4.0	9.6	6.9	7.1	6.7
Asia/Pacific	-1.2	7.6↑	4.8↓	13.4	4.8↑	3.1↓	7.7↓	5.2↓	4.8↑	0.7	1.7↓	2.2	2.2
Japan	-4.9	3.9	2.6	11.7	<u>-1.0</u>	2.0	9.0	3.0	2.0	-0.8	0.0↓	-0.1↓	0.6
Australia	-2.4	4.2	2.8	13.1	<u>2.3</u>	4.2	3.7	2.4	2.3	0.9	3.5↑	2.1↑	1.8
New Zealand	-3.0	3.5	3.8	-3.8	<u>-2.2</u>	3.3	3.3	4.6	3.9	1.4	2.1↑	1.9↑	1.9
EM Asia	-0.2	8.6	5.5	13.9	6.4↑	3.3↓	7.7↓	5.9↓	5.5↑	1.0	2.0	2.7	2.6
China	2.3	9.3	5.7	14.1	4.3	<u>6.8</u>	5.5	5.7	5.5	0.1	1.4	2.6	2.3
India	-7.6	11.2	5.8	24.7	<u>17.0</u>	-16.0	22.0	9.0	5.0	6.4	4.3	4.3	5.5
Ex China/India	-2.8	5.5↑	4.9	7.7	6.0↑	4.6↓	5.9↓	4.9↓	6.0↑	0.5	2.2	2.1	1.8
Hong Kong	-6.1	5.2	3.6	0.8	<u>3.9</u>	8.0	7.4	3.8	2.3	-0.3	1.1	2.6	2.1
Indonesia	-2.1	5.0	4.8	10.7	<u>4.0</u>	6.0	5.0	5.0	5.5	1.6	1.6	2.1	2.1
Korea	-1.0	4.6↑	4.1↓	5.0	6.6↑	<u>3.0↓</u>	7.0↓	5.0	4.0	0.4	2.3	2.3	1.6
Malaysia	-5.6	6.8	4.9	-1.0	<u>2.5</u>	9.0	5.0	5.0	4.5	-1.5	2.8	1.9	1.8
Philippines	-9.5	6.8	5.7	24.2	<u>3.6</u>	3.5	4.5	7.2	6.6	3.1	4.5	3.6	2.3
Singapore	-5.4	7.8	5.9	15.9	<u>8.2</u>	5.0	5.0	5.0	10.0	-0.1	1.4	1.1	1.0
Taiwan	3.1	7.9↑	3.8↑	5.8	12.9↑	<u>4.8</u>	6.0↑	3.5	3.3↑	0.0	2.1	1.9	1.6
Thailand	-6.1	3.9↓	8.2↑	5.4	<u>4.0↑</u>	2.0↓	5.0	5.0↓	16.0↑	-0.4	2.3	1.2	2.1
Western Europe	-7.1	5.3↓	5.2↑	-1.1↓	-2.9↓	8.7↑	14.6↑	5.6	3.8	-0.1	1.8↑	2.4↑	1.4↑
Euro area	-6.7↑	4.9↓	5.1↑	-2.7↓	-2.5↓	6.5↑	14.5↑	5.5	4.0	-0.3	1.8↑	2.4↑	1.3↑
Germany	-5.1↑	3.9↓	5.1↑	2.2↑	-6.6↓	8.0↑	16.0↑	4.0	4.0	-0.6	2.1↑	3.4↑	1.7↑
France	-8.2	6.3↓	4.7↑	-5.4↑	1.8↓	<u>0.0↑</u>	16.0	4.0	4.0	0.1	1.8↑	1.9↑	1.3↑
Italy	-8.9	5.9	5.7	-7.2↑	-1.6↓	<u>10.0</u>	14.0	6.0	4.5	-0.4	1.2↑	1.9↑	1.3↑
Spain	-10.8	6.6↓	7.4	0.1	-2.0	<u>10.0</u>	15.0	11.0	6.5	-0.8	2.1↑	2.8↑	2.0↑
Norway	-3.1	3.7	3.8	7.8	<u>-3.0</u>	3.5	10.0	4.0	3.0	1.3	2.9	2.6	1.3
Sweden	-3.0	4.4↑	3.4↓	-1.0	4.4↑	8.0↑	5.0↓	3.5↓	3.0	0.6	1.6	1.0	1.0
United Kingdom	-9.8	7.6	6.0	5.2	<u>-6.5</u>	20.1	17.4	6.7	2.8	0.6	1.7	2.3	2.1
EMEA EM	-2.7	4.4	4.1	6.5	<u>1.6</u>	3.3↓	5.1	4.0	3.7	4.9	6.5	6.0↑	4.5↑
Czech Republic	-5.6	4.0↑	5.5	2.5	-1.2↑	<u>5.0↓</u>	11.0	7.0	4.5	2.6	2.5	2.5	2.3
Hungary	-5.0	4.4	5.9	5.6	<u>-4.5</u>	6.0	11.0	7.5	4.7	2.8	4.6	4.4	3.4
Israel	-2.5	6.6	5.5	6.5	<u>3.6</u>	7.4	5.7	5.3	5.3	-0.7	1.3	1.3	1.2
Poland	-2.7	4.6	5.9	-2.8	<u>4.0</u>	4.8	10.0	7.5	5.0	2.8	4.4↑	4.6↑	3.0↑
Romania	-3.9	6.0	6.5	20.7	<u>-2.5</u>	6.1	11.2	7.0	2.8	2.1	2.9	3.9	3.6
Russia	-3.0	3.5	2.8	8.1	<u>3.0</u>	3.5	3.5	3.0	2.8	4.5	5.6	4.9	3.6
South Africa	-7.1	4.3	2.4	6.3	<u>1.8</u>	2.8	2.2	2.5	2.4	3.2	4.5	4.5	4.6
Turkey	1.8	4.8	4.1	6.9	<u>-0.8</u>	-2.0	0.4	0.8	4.5	13.5	16.9	14.7	10.5
Global	-3.6	6.5↑	4.5	7.5	3.2↑	6.0↑	9.0	4.6	4.0	1.1	2.7	2.7	2.2
Developed markets	-5.0	5.8↑	4.3	3.6	<u>2.0↑</u>	8.2↑	10.5↑	4.0	3.4	0.5	2.5	2.3↑	1.7
Emerging markets	-1.5	7.5	4.9	13.3	4.9↑	2.7	6.8↓	5.4↓	5.0↑	1.9	3.1	3.4	3.0
Emerging ex China	-4.6	6.1↑	4.3	12.7	5.3↑	-0.7	7.8↓	5.1↓	4.5↑	3.4	4.5	4.1	3.6
Global — PPP weighted	-3.3	6.9↑	4.7	9.1	4.2↑	4.8↑	9.0	4.9↓	4.2	1.6	3.0	3.1↑	2.6

Note: For some emerging economies seasonally adjusted GDP data are estimated by J.P. Morgan. Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts. Unless noted, concurrent nominal GDP weights calculated with current FX rates are used in computing our global and regional aggregates. Regional CPI aggregates exclude Argentina and Ecuador. Source: J.P. Morgan. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China) and Taiwan (China).

G-3 economic outlook detail

				2020		2021				2022
	2020	2021	2022	3Q	4Q	1Q	2Q	3Q	4Q	1Q
United States										
Real GDP	-3.5	6.7	4.1	33.4	4.3	6.4	10.0	8.3	3.0	3.5
Private consumption	-3.9	8.6	4.1	41.0	2.3	10.7	13.0	8.0	5.5	2.5
Equipment investment	-5.0	16.2	6.1	68.2	25.4	16.7	10.0	9.0	9.0	6.0
Non-residential construction	-11.0	-6.6	6.2	-17.4	-6.2	-4.8	-1.0	5.0	6.0	8.0
Intellectual property products	1.7	8.1	8.5	8.4	10.5	10.1	9.0	9.0	9.0	9.0
Residential construction	6.1	14.3	4.9	63.0	36.6	10.8	3.0	7.0	7.0	5.0
Inventory change (\$ bn saar)	-77.4	50.9	77.8	-3.7	62.1	-85.5	5.3	178.1	105.8	106.4
Government spending	1.1	1.2	4.7	-4.8	-0.8	6.3	0.4	0.4	3.4	6.9
Exports of goods and services	-12.9	4.2	5.4	59.6	22.3	-1.1	4.2	5.0	5.0	6.0
Imports of goods and services	-9.3	16.0	8.8	93.1	29.8	5.7	16.0	18.0	11.0	7.5
Domestic final sales contribution	-2.6	7.5	4.6	30.1	4.5	9.9	10.3	7.2	5.8	4.2
Inventories contribution	-0.7	0.8	0.1	6.6	1.4	-2.6	1.9	3.6	-1.4	0.0
Net trade contribution	-0.2	-1.6	-0.7	-3.2	-1.5	-0.9	-2.2	-2.5	-1.4	-0.7
Consumer prices (%oya)	1.2	2.8	2.2	1.3	1.2	1.9	3.5	2.9	2.8	2.4
Excluding food and energy (%oya)	1.7	2.0	2.2	1.7	1.6	1.4	2.4	1.9	2.1	2.3
Core PCE deflator (%oya)	1.4	1.9	1.9	1.4	1.4	1.5	2.3	1.9	2.0	1.9
Federal budget balance (% of GDP, FY)	-15.0	-14.8	-7.8							
Personal saving rate (%)	16.1	12.3	5.8	15.7	13.0	21.0	12.2	9.5	6.5	5.7
Unemployment rate (%)	8.1	5.2	3.8	8.8	6.8	6.2	5.5	4.8	4.5	4.1
Industrial production, manufacturing	-6.5	6.9	3.4	57.5	12.4	1.9	6.0	9.0	4.0	2.5
Euro area										
Real GDP	-6.7	4.9	5.1	60.3	-2.7	-2.5	6.5	14.5	5.5	4.0
Private consumption	-8.0	3.6	6.1	70.3	-12.5	-3.0	8.0	15.0	7.0	5.0
Capital investment	-8.4	5.8	5.5	67.7	7.9	1.0	4.0	8.0	6.5	5.0
Government consumption	1.2	2.8	0.1	19.9	1.2	-1.0	5.0	1.5	0.0	0.0
Exports of goods and services	-9.6	8.8	4.9	85.5	16.8	3.0	7.0	8.0	5.0	4.0
Imports of goods and services	-9.2	6.4	5.1	56.3	19.1	1.0	6.0	7.5	5.0	4.5
Domestic final sales contribution	-5.9	3.8	4.4	55.6	-5.2	-1.6	6.2	10.1	5.0	3.7
Inventories contribution	-0.3	-0.2	0.6	-5.7	2.7	-1.9	-0.4	3.8	0.2	0.3
Net trade contribution	-0.6	1.4	0.1	10.4	-0.2	1.0	0.7	0.6	0.2	0.0
Consumer prices (HICP, %oya)	0.3	1.8	1.3	0.0	-0.3	1.1	1.8	1.9	2.4	1.2
ex food, alcohol and energy	0.7	1.0	1.1	0.6	0.2	1.2	0.8	0.7	1.4	0.6
General govt. budget balance (% of GDP, FY)	-8.8	-6.9	-2.7							
Unemployment rate (%)	8.0	8.4	8.3	8.6	8.3	8.2	8.5	8.5	8.4	8.4
Industrial production	-8.4	8.0	4.0	82.9	16.6	0.0	5.0	5.0	5.0	4.0
Japan										
Real GDP	-4.9	3.9	2.6	22.8	11.7	-1.0	2.0	9.0	3.0	2.0
Private consumption	-6.0	2.9	3.1	22.0	9.0	-4.0	3.0	10.0	4.0	2.5
Business investment	-6.0	3.1	5.2	-9.2	18.2	3.0	2.0	9.0	8.0	5.0
Residential construction	-7.0	-1.7	1.0	-20.9	0.2	3.0	1.0	1.0	1.0	1.0
Public investment	3.7	3.2	0.8	3.8	6.1	1.0	2.0	2.0	2.0	1.0
Government consumption	2.7	3.4	-0.4	12.1	7.6	2.0	0.0	0.0	0.0	0.0
Exports of goods and services	-12.4	13.9	7.8	33.2	52.4	10.0	10.0	15.0	10.0	8.0
Imports of goods and services	-6.8	6.4	9.4	-29.0	17.0	12.0	10.0	15.0	15.0	10.0
Domestic final sales contribution	-3.8	2.9	2.5	12.5	9.7	-1.1	2.0	6.9	3.5	2.2
Inventories contribution	-0.1	-0.2	0.4	-1.4	-2.6	0.4	-0.1	2.0	0.3	0.1
Net trade contribution	-1.1	1.2	-0.3	11.8	4.7	-0.3	0.0	0.1	-0.8	-0.3
Consumer prices (%oya)	0.0	-0.1	0.4	0.2	-0.8	-0.4	0.0	-0.1	-0.1	0.0
ex food and energy	-0.1	-0.3	-0.3	-0.1	-0.5	0.3	-0.4	-0.5	-0.7	-0.3
General govt. net lending (% of GDP, CY)	-11.6	-10.9	-6.3							
Unemployment rate (%)	2.8	2.7	2.4	3.0	3.0	2.8	2.7	2.6	2.5	2.5
Industrial production	-10.3	11.6	3.5	39.9	27.8	12.6	15.0	10.0	3.0	2.0
Memo: Global industrial production	-5.3	9.3	4.0	71.2	14.9	2.3	6.5	6.8	4.3	3.5
%oya				-3.5	0.1	5.1	19.6	7.4	4.9	5.3

Note: More forecast details for the G-3 and other countries can be found on J.P. Morgan's Morgan Markets client web site. Source: J.P. Morgan

Global Central Bank Watch

		Official rate	Current rate (%pa)	4-qrtr change (bp)		Last change	Next mtg	Forecast next change	Forecast (%pa)				
				Last	Next				Jun 21	Sep 21	Dec 21	Mar 22	Jun 22
Global			1.23	-11	4				1.27	1.29	1.28	1.27	1.26
excluding US			1.61	35	6				1.65	1.68	1.68	1.67	1.64
Developed			-0.02	-15	0				-0.02	-0.02	-0.02	-0.02	-0.02
Emerging			3.16	-7	11				3.25	3.30	3.29	3.27	3.23
Latin America			2.76	-124	143				3.34	3.83	4.14	4.19	4.26
EMEA EM			5.55	135	-63				5.64	5.57	5.24	4.92	4.55
EM Asia			2.75	-15	2				2.75	2.75	2.75	2.77	2.77
The Americas			0.61	-18	21				0.70	0.77	0.82	0.82	0.83
United States	Fed funds		0.25	0	0	15 Mar 20 (-100bp)	16 Jun 21	On hold	0.25	0.25	0.25	0.25	0.25
Canada	O/N rate		0.25	0	0	27 Mar 20 (-50bp)	9 Jun 21	4Q22 (+bp)	0.25	0.25	0.25	0.25	0.25
Brazil	SELIC O/N		2.75	-100	275	17 Mar 21 (+75bp)	<u>5 May 21</u>	May 21 (+75bp)	4.00	5.00	5.50	5.50	5.50
Mexico	Repo rate		4.00	-203	0	11 Feb 21 (-25bp)	13 May 21	Feb 23 (+25bp)	4.00	4.00	4.00	4.00	4.00
Chile	Disc rate		0.50	0	75	31 Mar 20 (-50bp)	13 May 21	Oct 21 (+25bp)	0.50	0.50	1.00	1.25	1.50
Colombia	Repo rate		1.75	-150	75	25 Sep 20 (-25bp)	28 May 21	3Q 21 (+25bp)	1.75	2.00	2.50	2.50	2.75
Peru	Reference		0.25	0	50	9 Apr 20 (-100bp)	13 May 21	1Q 22 (+25bp)	0.25	0.25	0.25	0.75	1.25
Europe/Africa			0.85	2	-12				0.87	0.86	0.79	0.73	0.65
Euro area	Depo rate		-0.50	0	0	12 Sep 19 (-10bp)	10 Jun 21	On hold	-0.50	-0.50	-0.50	-0.50	-0.50
United Kingdom	Bank rate		0.10	0	0	19 Mar 20 (-15bp)	<u>6 May 21</u>	On hold	0.10	0.10	0.10	0.10	0.10
Norway	Dep rate		0.00	-25	50	7 May 20 (-25bp)	<u>6 May 21</u>	3Q21 (+25bp)	0.00	0.25	0.25	0.50	0.50
Sweden	Repo rate		0.00	0	0	19 Dec 19 (+25bp)	1 Jul 21	On hold	0.00	0.00	0.00	0.00	0.00
Czech Republic	2-wk repo		0.25	-75	25	7 May 20 (-75bp)	<u>6 May 21</u>	4Q 21 (+25bp)	0.25	0.25	0.50	0.50	0.75
Hungary	Base rate		0.60	-30	0	21 Jul 20 (-15bp)	25 May 21	On hold	0.60	0.60	0.60	0.60	0.60
Israel	Base rate		0.10	0	0	6 Apr 20 (-15bp)	31 May 21	On hold	0.10	0.10	0.10	0.10	0.10
Poland	7-day interv		0.10	-40	0	28 May 20 (-40bp)	<u>5 May 21</u>	4Q 22 (+15bp)	0.10	0.10	0.10	0.10	0.10
Romania	Base rate		1.25	-75	0	15 Jan 21 (-25bp)	-	2Q22 (+25bp)	1.25	1.25	1.25	1.25	1.50
Russia	Key pol rate		5.00	-50	50	23 Apr 21 (+50bp)	11 Jun 21	Jun 21 (+25bp)	5.25	5.50	5.50	5.50	5.75
South Africa	Repo rate		3.50	-75	25	23 Jul 20 (-25bp)	20 May 21	Jan 22 (+25bp)	3.50	3.50	3.50	3.75	4.00
Turkey	1-wk repo		19.00	1025	-500	18 Mar 21 (+200bp)	<u>6 May 21</u>	Sep 21 (-100bp)	19.00	18.00	16.00	14.00	11.00
Asia/Pacific			2.10	-13	2				2.10	2.10	2.09	2.11	2.11
Australia	Cash rate		0.10	-15	0	4 Nov 20 (-15bp)	<u>4 May 21</u>	On hold	0.10	0.10	0.10	0.10	0.10
New Zealand	Cash rate		0.25	0	-25	15 Mar 20 (-75bp)	26 May 21	Nov 21 (-25bp)	0.25	0.25	0.00	0.00	0.00
Japan	Pol rate IOER ¹		-0.10	-4	0	28 Jan 16 (-20bp)	17 Jun 21	On hold	-0.10	-0.10	-0.10	-0.10	-0.10
Hong Kong	Disc. wndw		0.50	0	0	3 Mar 20 (-50bp)	-	On hold	0.50	0.50	0.50	0.50	0.50
China	1-yr MLF		2.95	0	0	15 Apr 20 (-20bp)	-	On hold	2.95	2.95	2.95	2.95	2.95
Korea	Base rate		0.50	-25	25	28 May 20 (-25bp)	27 May 21	1Q 22 (+25bp)	0.50	0.50	0.50	0.75	0.75
Indonesia	BI RRR		3.50	-100	0	18 Feb 21 (-25bp)	25 May 21	On hold	3.50	3.50	3.50	3.50	3.50
India	Repo rate		4.00	-40	0	22 May 20 (-40bp)	4 Jun 21	On hold	4.00	4.00	4.00	4.00	4.00
Malaysia	O/N rate		1.75	-25	0	7 Jul 20 (-25bp)	<u>6 May 21</u>	On hold	1.75	1.75	1.75	1.75	1.75
Philippines	Rev repo		2.00	-75	0	19 Nov (-25bp)	13 May 21	On hold	2.00	2.00	2.00	2.00	2.00
Thailand	1-day repo		0.50	-25	0	20 May 20 (-25bp)	<u>5 May 21</u>	On hold	0.50	0.50	0.50	0.50	0.50
Taiwan	Official disc.		1.125	0	13	19 Mar 20 (-25bp)	17 Jun 21	1Q 22 (+13bp)	1.13	1.13	1.13	1.25	1.38

Source: J.P. Morgan. ¹ BoJ sets the policy rate on IOER (O/N) and targets 10-year JGB yields as policy guidance. Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week. Aggregates are GDP-weighted averages. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China) and Taiwan (China).

Nowcast global GDP 1Q21: Déjà vu

See [methodology report](#) and [podcast](#) for the new suite of J.P. Morgan Nowcasting products.

We continue to raise our sights on 1Q21 growth as GDP reports roll in. On balance, official reports are surprising to the upside sending a similar message as in the prior two quarters. While China and the Euro area came in somewhat softer than expected, this week's 1Q21 GDP reports for the US, Korea, and Taiwan were notably stronger than anticipated. In the US, real GDP expanded 6.4% ar last quarter, nearly 2%-pts above our forecast as of last Friday. We now see global real GDP expanding 3.2% ar in 1Q—2%-pts higher than our forecast two months ago. At the same time, we have revised lower our growth forecast for 2Q as infections have surged and mobility has declined in the EM (Figure 1). Next week we will roll forward our nowcasting of global GDP to 2Q following the release of the global April PMIs.

Figure 1: J.P. Morgan global GDP

% change saar

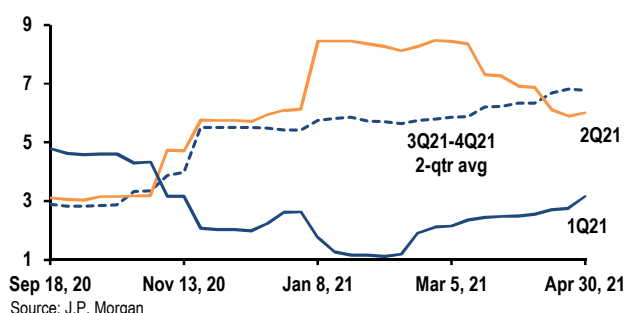
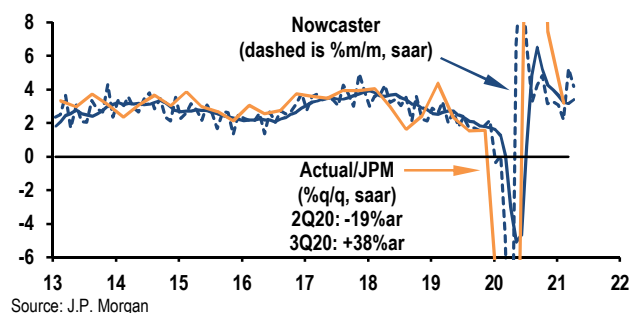


Figure 2: Global real GDP

%q/q, saar. J.P. Morgan projection through 1Q21; Nowcaster through April



Our new top-down global nowcaster model is tracking 1Q global growth at 3.2% ar (Figure 2). The nowcaster had been tracking above our official forecast since it began tracking 1Q21 growth. The continued rise in the official forecast suggests that the nowcaster was sending the correct signal of upside risk for the past three months. The aggregate of our new

bottom-up nowcasters points to global growth at a stronger 4.0% ar pace (Table 2). The majority of nowcasters project faster 1Q growth than the official forecasts (Figure 3). Note that for the economies that have already reported 1Q results, the nowcaster is viewed as a bias for future revisions.

Table 1: Real GDP

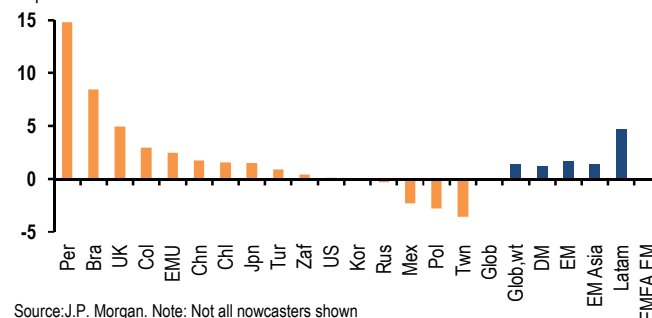
%q/q, saar. Underline indicates J.P. Morgan forecast

	4Q20		1Q21	
	Actual/Fcst	Nowcast	Forecast	Nowcast
Global	7.5	4.0	<u>3.2</u>	<u>3.2</u>
Weighted Avg*	6.7	6.6	<u>2.6</u>	<u>4.0</u>
Developed*	3.3	4.8	<u>2.1</u>	<u>3.2</u>
US	4.3	5.5	6.4	<u>6.5</u>
EMU	-2.7	4.0	-2.5	<u>0.0</u>
UK	5.2	0.6	<u>-6.5</u>	<u>-1.6</u>
Canada	9.6	5.5	6.5	3.4
Japan	11.7	6.3	<u>-1.0</u>	<u>0.5</u>
Emerging*	12.6	9.7	<u>3.6</u>	<u>5.3</u>
EM Asia*	12.9	11.1	<u>5.0</u>	<u>6.3</u>
China	14.1	12.1	4.3	<u>6.1</u>
Korea	5.0	6.6	6.6	<u>6.6</u>
Taiwan	5.8	6.5	12.9	<u>9.4</u>
Singapore	15.9	-1.3	<u>8.2</u>	<u>7.6</u>
Latam*	17.4	11.6	<u>0.5</u>	<u>5.2</u>
Brazil	13.3	12.1	<u>-0.8</u>	<u>7.6</u>
Mexico	13.7	9.2	1.8	<u>-0.5</u>
Argentina	19.4	14.5	<u>5.0</u>	<u>12.3</u>
Chile	30.1	13.4	<u>4.0</u>	<u>5.6</u>
Colombia	26.5	9.8	<u>3.5</u>	<u>6.4</u>
Peru	38.1	14.8	<u>-14.0</u>	<u>0.8</u>
EMEA EM*	6.5	2.0	<u>1.4</u>	<u>1.4</u>
Poland	-2.8	1.4	<u>4.0</u>	<u>1.2</u>
Hungary	5.6	4.2	<u>-4.5</u>	<u>0.9</u>
Czech Rep.	2.5	-0.4	<u>-1.2</u>	<u>-1.7</u>
Romania	20.7	4.2	<u>-2.5</u>	<u>-0.5</u>
Russia	8.1	1.1	<u>3.0</u>	<u>2.7</u>
Turkey	6.9	1.1	<u>-0.8</u>	<u>0.1</u>
South Africa	6.3	8.6	<u>1.8</u>	<u>2.2</u>

* Aggregates are GDP weighted averages of constituents. Source: J.P. Morgan. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China); and Taiwan (China).

Figure 3: Risk bias, 1Q21

%-pts. Nowcast minus forecast



This week we updated the April flash DM PMIs following their release last Friday. The all-industry flash output PMIs rose for each of the DM economies, with gains broadly across regions and sectors. The US continues to outperform, hitting

record highs in both the services and composite output PMIs. We also updated our tracking of global corporate profits at the sector level. After one of the worst years in decades, we see global corporate profits surging roughly 60% this year on a year-average over year-average basis to nearly recover to their pre-pandemic baseline by 4Q21.

Table 2: J.P. Morgan global aggregates

%ch, sa (ar for qrt). PMIs are levels. Confidence is st.dev from 2010-pres avg

	4Q20	1Q21	Dec20	Jan21	Feb21	Mar21
PMI, mfg	54.9	54.5	54.9	54.1	54.3	55.1
PMI, serv	52.3	53.0	51.8	51.6	52.8	54.7
IP	17.1	<u>4.1</u>	0.6	0.8	-1.1	<u>0.6</u>
Retail sales	4.3	<u>-1.4</u>	-0.5	-1.1	0.7	<u>3.2</u>
Auto sales	10.7	-9.8	4.1	-5.8	-1.8	6.9
G-3 cap. ship.	25.5	<u>12.2</u>	-0.4	3.0	-0.5	<u>0.8</u>
G-3 cap. orders	29.5	<u>8.1</u>	1.4	0.2	-0.2	<u>2.0</u>
Cap. exports	28.7	<u>19.5</u>	3.4	1.3	-0.5	<u>2.7</u>
Bus conf	0.1	0.6	0.2	0.2	0.7	1.0
Cons conf	-0.4	-0.2	-0.4	-0.5	-0.3	0.2
Nowcast (ar)	4.0	3.2	3.2	3.1	2.2	5.2

Note. Shaded values show forecasts computed by the Kalman filter estimates from the dynamic factor model. Underlined values are our estimates based on available data and our judgment. Source: J.P. Morgan, Markit, and national statistical agencies.

Figure 4: Global real GDP, 1Q21

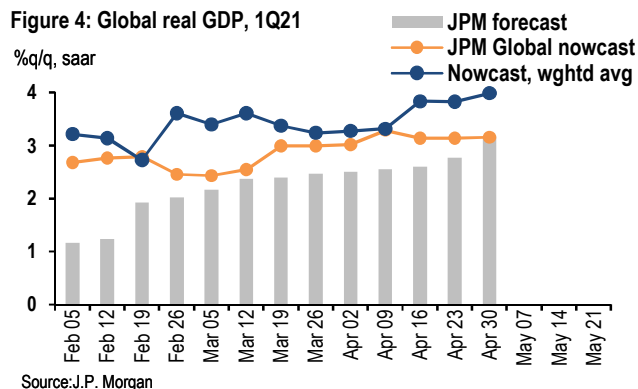


Figure 5: US real GDP, 1Q21

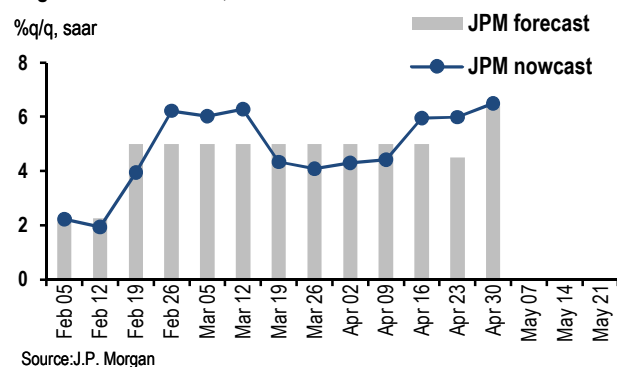


Figure 6: Euro area real GDP, 1Q21

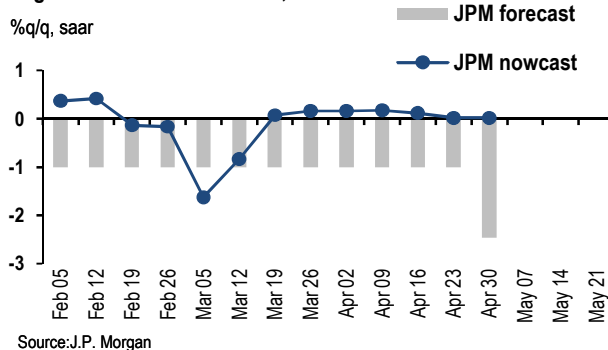


Figure 7: EM Asia real GDP, 1Q21

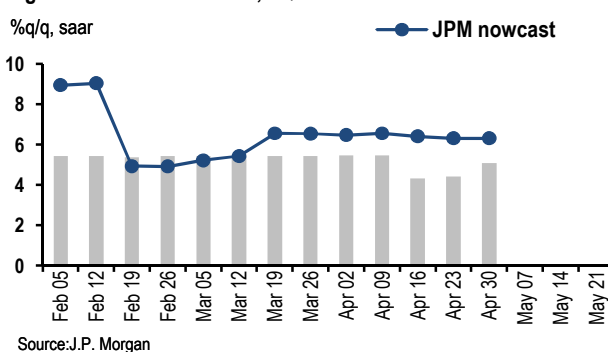


Figure 8: Latam real GDP, 1Q21

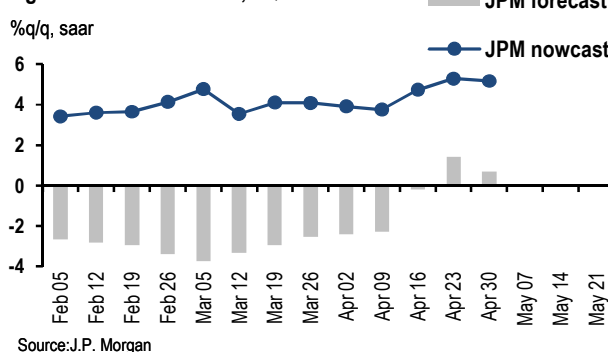
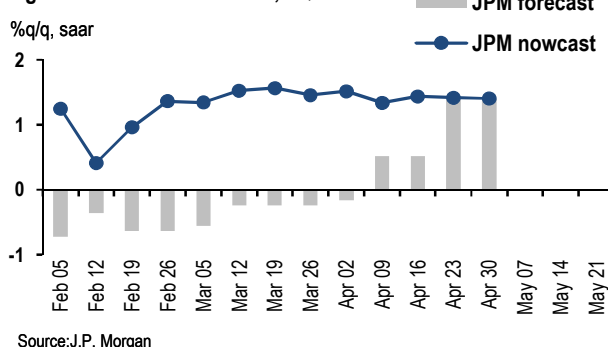


Figure 9: EMEA EM real GDP, 1Q21



* For a primer on our nowcaster suite, see [here](#).

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Economic Research Note

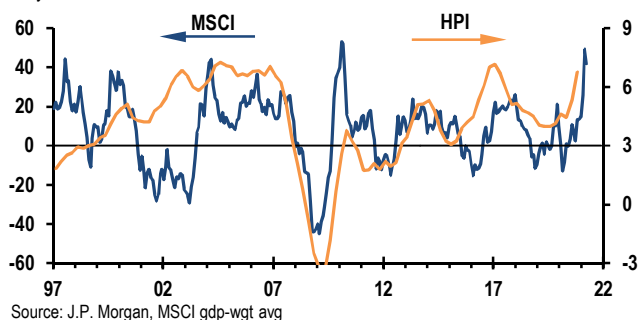
Global: Home is where the appreciation is

- House price appreciation was sustained through the pandemic, accelerating to robust 10%/q saar pace in 4Q20
- Gains have been broadly based, but largest across the DM; US prices surging strongest in 40yrs
- House prices resilience similar to 2001, while trend deviation looking like mid-06
- Trend deviations modest for most and leverage concerns absent for now, but boomy growth ahead poses risks

The rapid recovery in GDP from last year's recession has delivered an even more impressive recovery in asset prices. After slumping 20% in the pandemic, global equity markets have roared back and are now over 20% above their pre-pandemic level. Even more remarkably, global house prices never fell during the pandemic, ending 2020 up 7% from their pre-pandemic levels (Figure 1). The resilience of the global housing market owes largely to the unique aspect of the sharp downturn last year that put a premium on housing services coupled with the unprecedented policy actions that provided ample support to purchasing power.

Figure 1: Equity and house prices, global

%oya; both scales

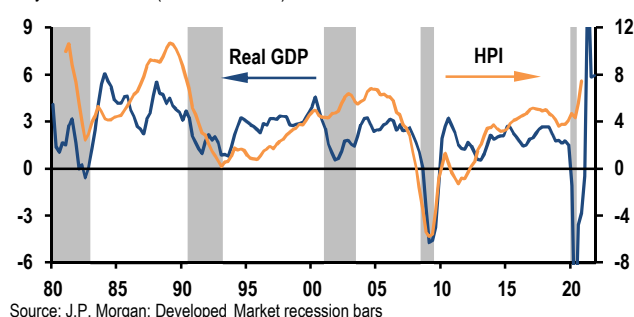


With house price appreciation in 2H20 running near its fastest pace in over two decades and with a year of boomy growth still ahead (Figure 2), it is reasonable to question the point at which the rise becomes a problem. The outlook sees global GDP soaring 5.4% this year, stronger than anything seen in over four decades—excluding the stunning bounce back in 2H20. Asset price appreciation in the face of considerable real growth is understandable and even welcomed as it comes with firming real incomes. In this regard, the recent developments are not a concern for now. Indeed, after a decade of relatively subdued housing construction, strong house price appreciation

would be a beneficial signal for builders to boost capacity—extending the longevity of the expansion. However, while the risks are contained, house prices are moving above their longer-run trends and could become problematic if fueled by excessive leverage. The Global Financial Crisis was a painful reminder that asset prices can rise above their fundamental supports and eventually challenge financial stability. The type of excess building and leverage are not present yet. But this will likely not stop central banks from turning a cautious eye to recent developments, underscored by the recent upbeat shift from the Bank of Canada.

Figure 2: Real GDP and house prices, developed market

%oya; both scales (forecast 1Q21+)

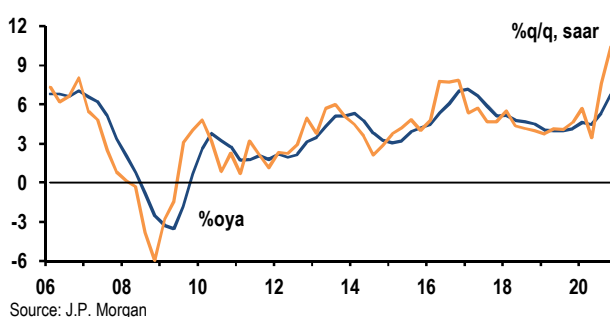


A broad-based jump in house prices

After a rare contraction during the GFC, housing markets slowly recovered and global house prices gradually accelerated. The damage and slow recovery was concentrated in the DM, whereas the EM experienced rapid house price appreciation in response to large capital inflows—particularly between from 2010 to 2016. While DM house prices continued a steady acceleration, EM came off the boil in 2017-18. By 2019, house prices were expanding broadly at a solid but sustainable 3-5% annualized pace. This changed in 2020 (Figure 3). In contrast to the GFC, the pandemic had little impact on global house prices, which expanded throughout 2020.

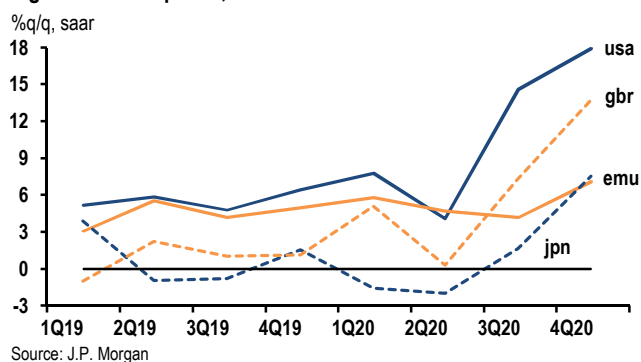
Figure 3: Global house prices

%oya



Even as the pandemic raged early last year, global house prices continued to strengthen—raising nearly 5% annualized in 1H20. The performance of house prices since the start of the expansion has been even more impressive than the resilience through the downturn. Over just two quarters, global house prices have jumped 9% annualized, with the DM seeing a near 11% gain. The pace of appreciation even picked up further in 4Q to 13% annualized.

Figure 4: House prices, G-4



The heady pickup in house price appreciation is broadly based across the DM, led by the US (Figure 4). After expanding modestly through the recession, US house prices skyrocketed 18%ar in 4Q20—its strongest one-quarter gains in over 40 years. House price appreciation in the UK is not far behind the US, rising to just under 14%ar in 4Q20. While not rising like the US or UK, Euro area house prices are also expanding at a robust pace. In Japan, house prices leapt 8%ar in 4Q20 from a near-stall in 2019-20. In the EM, house price gains have been tamer outside a few standouts (Figure 5). Along with a surging house prices in Turkey and Russia, Korea has also seen a marked acceleration (Figure 6). House price gains in China have been modest—perhaps owing in part to the rapid growth of construction.

Figure 5: House prices, EM

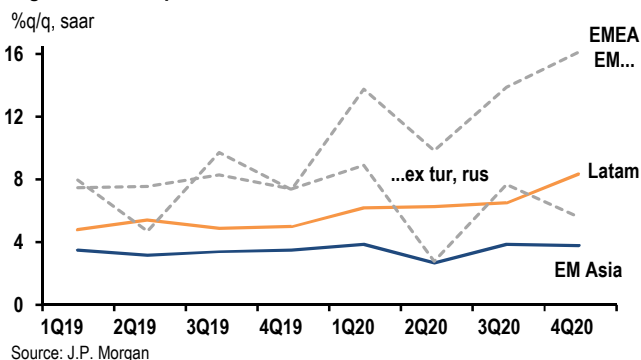
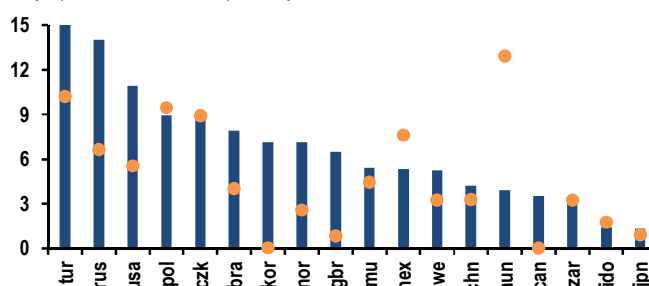


Figure 6: House prices

%oya (bar: 4Q20, dot: 4Q19); Turkey 4Q20 31%

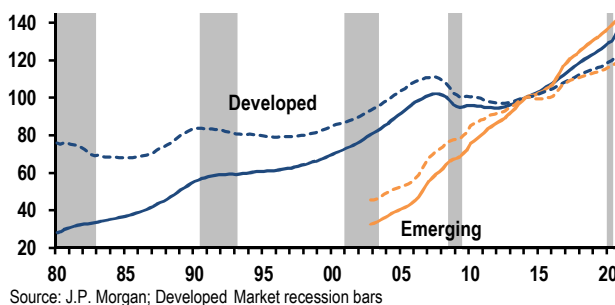


Trends looking a little bubbly

As with all prices, the trend in the price of housing has been up for decades. House prices in the DM have expanded 390% since 1980, an average annualized rate of 4% appreciation (Figure 7). Despite the cyclical swings, the average trend pace has been remarkably steady for the region as a whole. In the EM, where data is more limited, house prices since 2002 have surged by nearly the same percent as the DM since 1980, making for an annualized rate of 8.5% appreciation.

Figure 7: House prices, nominal and real

Index (1Q14=100); Dashed real deflated with core CPI



The higher rate of inflation in the 1980s flatters the appreciation of DM house prices. In real terms (relative to consumer prices excluding food and energy), house price appreciation has been more modest. Real house prices have firmed at an average annualized rate of 1.3% in the DM and 5.5% in the EM. Despite the lower real gains, both trend growth as well as its cyclical stability have been notably stable over the past forty years for DM and over the past 20 years for the EM.

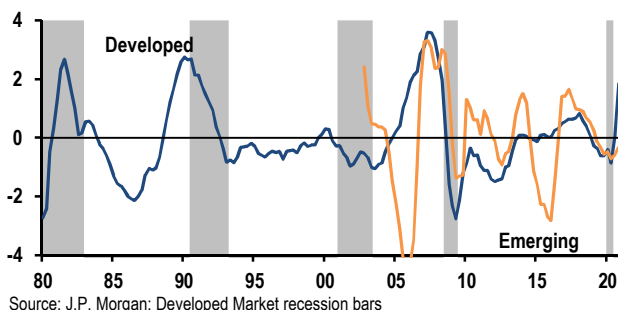
Gauging the sustainability of house price dynamics is complicated given that households are on both sides of the market as consumers (everyone) and suppliers (owners). Labor income and interest rates are fundamental supports for house prices. While the former is still depressed, the latter is low and likely to remain so. At the same time, demographic factors along with the structural shift in the desire of housing services (the

pandemic being the latest shock) have material influence on the housing market. In light of these many complicating factors, the stability of the trend and cycle in house prices is actually somewhat remarkable.

How the many factors buffeting the house market balance out on the demand and supply of housing, and on prices as a result, is a question for a more structural model. In lieu of this, the trends in house prices are still telling. To explore this, we consider the deviation in the natural log of house prices from its Hodrick-Prescott filtered trend (a de-trending method akin to a sophisticated moving average). Once the trend is determined, the %-deviation from this trend is computed. The message is the same one that came from the simple house price index: the trend growth is stable as are its cyclical properties (Figure 8).

Figure 8: House prices, deviation from trend

% deviation from HP filter



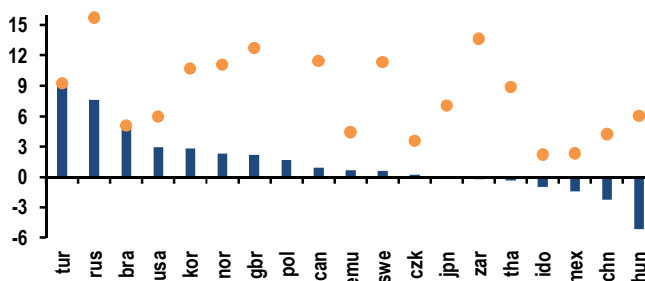
The latest experience of house price trends over the past year underscores a number of key points:

- **Largely a DM story.** Abstracting from country variation, the latest surge in house prices has pushed house prices above their long-run trend primarily in the DM. The DM aggregate HPI is about 2% above its historical trend, compared to the EM aggregate being roughly in line with its trend.
- **A decade high deviation from trend.** The GFC left DM house prices (particularly in the US) depressed for many years well into the expansion. Consequently, the latest deviation of 2% as of 4Q20 pushes DM house prices to a decade-high relative to trend.
- **Contained compared to past episodes....** The current deviation from trend in DM house prices is relatively contained compared to the three large DM deviations seen in the early-1980s, the early 1990s, and the late 2000s. By comparison, the current deviation from trend of roughly 2% is only about 1/2 to 2/3 that of the prior peak-deviations.

- **...but still rising rapidly.** Despite the relatively contained deviation from trend, the rapid rise over the past year is impressive. One more year like 2020 and the trend deviation will reach an all-time high. Given the boomy growth still to come, this is a real possibility unless a boom in construction adds sufficient capacity meet the rising demand.

Figure 9: House prices, deviation from trend

% deviation from HP filter (bar: 4Q20; dot: max); Poland max 23%



By country, the same countries that have seen the most rapid growth over the past year are also those that currently have the largest deviations from their long run trends (Figure 9). That said, as seen in the regional aggregates, most country's deviation from trend remains well below the maximum seen in its history. The exception is Turkey and Brazil, where the current trend-deviation of 9% and 5%, respectively, is a new high. By contrast, the US deviation of 3% is only one-half that of its peak seen in mid-2007.

Economic Research Note

Draghi's high-stakes pledge to transform Italy

- Draghi's administration unveiled unprecedented spending and reform plans
- EU fund will finance spending worth more than 10% of GDP until 2026, mostly capex
- Far-reaching reforms require an authoritative political leader to muster political consensus and ensure delivery
- We now expect Draghi to remain PM until end of the term in early 2023

When he took office as prime minister back in February, Mario Draghi highlighted the main priorities of his administration (outside a faster roll-out of vaccinations): (i) a timely and far-reaching recovery plan to kick-start growth in the post-COVID-19 world and (ii) a transformational set of structural reforms. In our view, the recently unveiled Italian Recovery and Resilience Plan (RRP) is the most impressive early result of the Draghi administration. Within a matter of about two months, the government—with work spearheaded by a handful of technocrats personally selected by Draghi—made substantive progress on all fronts and respected the end-April timeline for delivery to the EC. This was not a foregone conclusion in light of the modest legacy work inherited from the previous administration.

The government's plan details a major spending effort worth more than 10% of GDP until 2026 fueled by the EU funds. Complementarily, it envisages a transformational package of structural reforms aimed at easing long-standing institutional bottlenecks. Given the unprecedented scale and ambition of these plans, we now expect Draghi will remain Italy's PM until the end of the term in early 2023.

The Recovery fund plan: Government spending worth 10% of GDP over 5 years

The figures in the spending plans to be financed in Italy through the Recovery Fund resources are large at €191.5 billion, or 9.4% of nominal GDP cumulatively over 2021-26 (Table 1). Out of this, 3.5% of GDP comes from grants and almost 6% of GDP from loans (the grants figure rises to 4.3% of GDP when another EU facility for which the timeline is unspecified is included).

Altogether, this amounts to 10.2% of GDP of projects to be financed according to EU priorities and the EU's timetable, and within the perimeter of Recovery Fund conditionality (see

[here](#) for our discussion of the EC conditionality and the mechanisms underpinning it).

Table 1: Italy - Recovery Fund schedule

% of GDP	Grants	Loans	Total
2021	0.6	0.8	1.4
2022	0.9	0.9	1.8
2023	1.4	0.7	2.1
2024	0.5	1.3	1.8
2025	0.1	1.2	1.3
2026	0.0	1.0	1.0
Total	3.5	5.9	9.4
€ billion	68.9	122.6	191.5

Source: Italian Ministry of Finance. Grants exclude €15 billion under minor EU facilities.

In line with the EU guidelines, the majority of resources (more than 50% of the total) are earmarked for the green transition and digitization/innovation pillars (Table 2), with the rest split among the other four pillars (infrastructure for sustainable mobility, education and research, inclusion and territorial cohesion, and healthcare). The spending timeline is relatively frontloaded at nearly 2% of GDP per year on average during 2022-24 (Table 1). The government plans to receive funding worth 1.4% of GDP in the second half of 2021, although [we think](#) that only about 50% of these resources will be effectively expended in 2021 due to legal and bureaucratic constraints.

Table 2: Italy - Recovery Fund allocation

Pillar	% of total
Green transition	31.2
Digitization & Innovation	20.7
Infrastructures for sustainable mobility	14.3
Education & research	12.7
Inclusion & cohesion	12.3
Healthcare	8.8
Total envelope	100

Source: Italian government

Capex is the bulk of the spending effort, largely for truly incremental projects

About two-thirds of these resources (6.2% of GDP) will finance public investment (Table 3), while the rest will be split among a mix of capital transfers, current spending, and financing a tax reform. We calculate that about 70% of the capex will be truly incremental, while the rest will fund ongoing or previously budgeted projects. Finally, the government allocated an extra €30 billion (1.5% of GDP) of domestic resources to additional investment projects (mostly infrastructure) whose timeline or scope falls outside of the Recovery Fund perimeter. Taking into account this additional envelope, the overall spending effort rises to 11.7% of GDP.

Table 3: Italy - Recovery fund breakdown
% of GDP

	Capex	Other
2021	0.9	0.5
2022	1	0.8
2023	1.3	0.8
2024	1.2	0.6
2025	1	0.3
2026	0.8	0.2
Total	6.2	3.2

Source: Italian Ministry of Finance, J.P. Morgan

The government also provides an estimate of the macroeconomic impact of this large-scale spending: a cumulative 3.6% of GDP by the end of 2026. According to our calculations based on our estimates of the truly additional spending, the government seems to apply an average multiplier near 0.6 to government spending, with an upper bound of 0.75 for capex. These estimates appear conservative to us, given that the literature suggests a multiplier close to unity for government investment, and possibly higher than that with monetary policy constrained by the ZLB and with an economy far from full employment.

A transformational reform effort, with demanding timelines

The Recovery and Resilience Plan (RRP) also details the package of reforms that the EC requires as a precondition for access to the funds and their continued disbursement over time. The government plans to implement four major structural reforms in areas that have long been identified as institutional bottlenecks hampering the country's growth potential: bureaucracy, justice, simplification of legislation, and promotion of competition.

As a complement to these overarching "systemic" reforms, the government also plans to tackle a tax reform (reducing the tax wedge on labor income and promoting more favorable treatment for families) and reform of unemployment subsidies and active labor market policies. The public administration reform aims to cut the regulatory burdens currently borne by businesses and citizens in terms of costs and time waste. The reform of justice aims to reduce the length of judiciary proceedings and make the (civil and criminal) process and its outcomes more predictable. The reform aimed at streamlining and simplifying repeals of legislation or amendments laws and regulations that have a negative impact on the daily lives of citizens and businesses.

We note that the reform package is best seen as a complementary effort to the spending plans, in the sense that the ambitious spending targets within a compressed timeline would be hard to achieve without smoother functioning of the public

administration machine (procurement, legal enforcement, etc.). While the reform timeline may extend over a longer period of time, the government is committing to complete most of the groundwork in the second half of 2021. To ensure timeliness, the Draghi administration is minded to use a legal instrument where Parliament defines a broad framework of action but then delegates the actual legal work and implementation to the relevant ministries.

Political read-through: Draghi likely to stay until end of term in 2023

In our view, the RRP contains an ambitious package of spending projects and reforms that, if implemented properly and in a timely fashion, would be transformational for the Italian economy. It is perhaps ironic to remember that back in 2010, at the onset of the sovereign funding crisis, it was Draghi himself in his role of governor of the Bank of Italy who asked for structural reforms that have since been only very partially accomplished. We strongly doubt that, in its present state, Italian politics would have been able to rise to the occasion and deliver anything close to the RRP produced by the Draghi administration. In our view, this preliminary accomplishment is entirely the result of Draghi's clout and his ability to muster consensus from a very heterogeneous and unfocused parliamentary majority. However, the presentation of the RRP is only the first, and possibly the easier, step in a long and complex journey. And, Draghi himself has warned the Parliament and political leaders that this is a crucial, and possibly last, chance for Italy that cannot be missed. In light of the tasks ahead, we now believe that it is very likely that Draghi will remain PM until the end of the term in early 2023. Contrary to our previous view, we no longer consider it likely that he will be elected as president of the Republic in January 2022. This is because we deem his presence necessary to deliver on the major commitments taken on by the government with the EC but also, ultimately, to maintain financial markets' willingness to fund at attractive terms a sovereign with a debt-to-GDP ratio close to 160%.

We think that Draghi himself acknowledged that his presence is necessary. For instance, according to press reports, he used his credibility and clout to act as a personal guarantor of the execution of the Italian RRP with the EC. Likewise, the [budgetary plans for 2021](#) are on a larger scale than expected and are fully consistent with his vision of using debt to invest to transform Italy's long-term growth prospects. We see no way this agenda could be successfully completed within the eight months until January 2022. On a different note, it is arguably equally important for the EU to have a leader of Draghi's caliber at a time of weakened German and French leaderships (with the retirement of Merkel and upcoming elections in France).

However, for all his impressive credentials, Draghi is still the PM of a heterogeneous majority that got together due to political opportunism and a lack of alternatives. Hence, his ability to deliver will reflect the willingness of political parties to compromise and avoid cross-vetoes that could eventually frustrate government action. We note that for the most part the main structural reforms come with modest budgetary costs. Nonetheless, they have historically proven the most difficult to implement, because they would harm vested interests. Draghi himself has highlighted political inertia as the key risk to the government plans.

At this stage, we remain constructive, if only because any future government will be forced to deal with the EC and risk incurring the sanctions foreseen by the Recovery Fund conditionality (which extend to suspension and even withdrawal of funding). In this sense, political leaders may perceive as an advantage the dilution of political responsibility in the face of “difficult” reforms that public opinion will largely attribute to Draghi. It is difficult to say whether the current majority will remain whole or split at some point, but we expect the incentive to stay in power at the time of the exit from the pandemic will be quite powerful.

Economic Research Note

German elections: The post-Merkel era looks greener

- **Angela Merkel steps down at September's Bundestag election after 16 years as Chancellor**
- **Polls have swung sharply toward the Greens, but CDU/CSU may still recover to hold the chancellorcy**
- **Coalition formation will be harder, possibly less stable**
- **Differences between parties on fiscal and EU matters exist but are often overstated**

With Angela Merkel having already decided to step down as chancellor after 16 years, the Bundestag election on September 26 will mark the end of an era. The coming shift in German politics may be even larger given the huge changes in the opinion polls. The prospects of the CDU/CSU moving into opposition and the Greens' candidate Annalena Baerbock becoming chancellor are increasing. In fact, the Greens may be able to lead a coalition with the SPD and Left Party and hence avoid any influence from the center-right. From a domestic perspective, the rise of the Greens has a clear implication for environmental and energy policy, although public opinion is pushing all parties to be more ambitious in this area. From a broader perspective, the election may have a significant impact on German fiscal policy and on Germany's attitude toward further European integration. In our view, differences between German political parties on these issues are often overstated, but it is important to consider these issues.

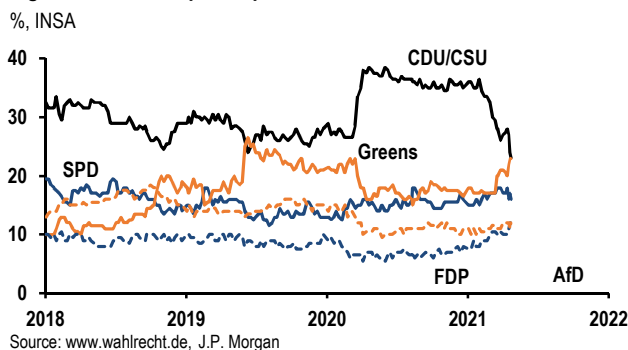
The polls turn green

In the last two decades, Germany's two dominant parties, the center-right CDU/CSU and the center-left SPD, have seen a secular decline in support. This reflects an inevitable squeeze as Germany's political landscape expanded from essentially a three-party system (CDU/CSU, SPD, and FDP) with the rise of the Greens in the 1980s, the Left Party after German reunification in the 1990s and the far-right AfD in the 2010s. At the last election, the CDU/CSU and SPD received only 32.9% and 20.5% of the votes, respectively, whereas both had been used to winning around 20%-pts more a few decades earlier. This structural decline has created tensions in both parties, with neither finding a clear response.

The latest polls suggest that these trends continue and are being amplified by tensions created by the COVID-19 crisis. The SPD is under new leadership, the relatively low-profile Norbert Walter-Borjans and Saskia Esken, with current finance minister Olaf Scholz chosen as the party's candidate for chancellor. But, this has not stopped the SPD from slipping

further to around 15% support in the polls (Figure 1). The CDU/CSU has also struggled to establish a clear direction, with internal fights between those favoring Merkel's centrist position and those wanting a return to a clearer center-right platform. Two changes in leadership, from Merkel to Annegret Kramp-Karrenbauer and now to Armin Laschet, have failed to settle this debate. While the CDU/CSU has held up better in the polls than the SPD, an incumbency bonus at the start of the COVID-19 crisis has now evaporated due to dissatisfaction with the recent handling of the pandemic. In addition, the messy process to pick Armin Laschet over the more popular CSU leader Markus Söder as the joint candidate for chancellor has contrasted starkly with the Greens' orderly decision to pick Annalena Baerbock. In the most recent polls, a big swing has put the Greens broadly level with the CDU/CSU (and comfortably ahead in one poll). Interestingly, neither the far-right AfD nor the Left Party have benefited much from the government's difficulties.

Figure 1: German opinion poll



New coalition options emerge

The seat allocation in the Bundestag is proportional to the vote shares of the parties, excluding votes received by smaller parties below the 5% hurdle. With the caveat that the polls have seen large moves over the past two weeks, which unlikely have settled yet, we make some general comments about possible coalition options (Table 1).

Table 1: German coalition possibilities in latest polls

	% of seats, highlighted options have majorities			
	Emnid	Forsa	INSA	2017 election
Grand	42.6	37.6	41.5	56.3
Center-right (CDU/CSU, FDP)	38.3	36.6	37.2	46.0
Kiwi (CDU/CSU, Greens)	58.5	53.8	48.9	44.1
Jamaica (CDU/CSU, Greens, FDP)	68.1	66.7	61.7	55.4
Traffic light (Greens, SPD, FDP)	53.2	57.0	54.3	42.3
GRR (Greens, SPD, Left)	51.1	51.6	50.0	40.7

Sources: www.wahlrecht.de, J.P. Morgan

- **Grand coalition (CDU/CSU, SPD).** Even before the polls moved abruptly in the last two weeks, this option was fall-

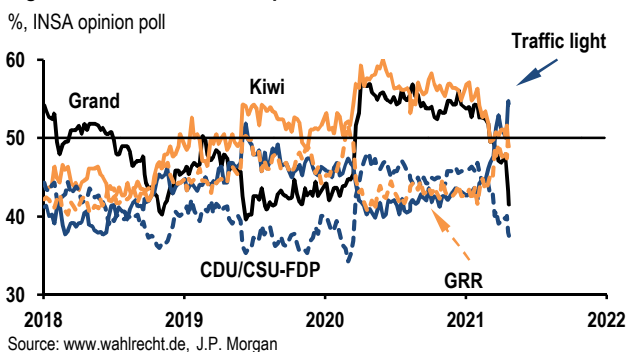
ing short of a majority. But, as 12 out of 16 years of Merkel's chancellorship were grand coalitions, both parties want a change in any case. The SPD feels that its weak polling performance is because Merkel has taken credit for policy initiatives proposed by the SPD. And the CDU/CSU feels that it has lost much of its distinctiveness.

- **Center-right (CDU/CSU, FDP).** This coalition is the most natural one for both parties, but is falling far short of a majority in the polls. This coalition was last formed during Merkel's second term as chancellor (2009-2013) and took a hawkish stance on German fiscal policy and rescues during the Euro area sovereign crisis.
- **Kiwi (CDU/CSU, Greens).** This coalition would have a majority according to three of the latest four polls, with the Greens ahead of the CDU/CSU in three polls and tied in one. (The description "Kiwi" is normally used only if such a coalition is led by the Greens, with the CDU/CSU as a junior partner.) A Kiwi coalition, led by the Greens' Winfried Kretschmann, has governed Baden-Württemberg since 2011. For the CDU/CSU, this coalition would swap one center-left partner (the SPD) with another (the Greens), but is seen as favorable by a number of leading CDU/CSU politicians; however it would of course make a huge difference if the CDU/CSU can claim the chancellorship by getting more seats than the Greens. In that case, the CDU/CSU would certainly regard it as an option, with both Laschet and Söder saying that the Greens are an "interesting" partner.
- **Jamaica (CDU/CSU, Greens, FDP).** The FDP could be brought in by the CDU/CSU and the Greens if a Kiwi coalition falls short of a majority. An attempt was made to form this coalition after the 2017 election, but the FDP pulled out at the last minute. This could still be led by the Greens if they are the single largest party. But, compared to the current grand coalition, the balance may tilt in a center-right direction as the FDP would top up the votes contributed to such a coalition by the CDU/CSU.
- **Traffic light (Greens, SPD, FDP).** Due to the boost in support of the Greens, this option has a majority in all of the latest polls. The Greens would almost certainly be the largest partner and would therefore claim the chancellorship. The FDP would provide a center-right influence, but it would contribute only about 20% of the coalition's seats. For the FDP, this coalition may be somewhat uncomfortable, but it may be its only route into government.
- **GRR (Greens, SPD, Left).** This would be the most radical option, including on fiscal and EU policy, without any center-right influence at all. At present, this is a narrow option in three of the four latest polls. However, the Left party is

still a somewhat controversial partner for the SPD and Greens.

Whereas only two coalition options existed after the 2017 federal election (i.e., a grand and Jamaica coalition), the number of options has increased recently (Table 1 and Figure 2). Of course, much depends on whether the latest shift in the polls reflects an overreaction to recent political events. It also matters hugely if the Greens can get more votes than the CDU/CSU and whether the Greens will have multiple coalition options. For example, the Greens may be able to form a "Kiwi" coalition with the CDU/CSU or a "traffic light" coalition without the CDU/CSU, allowing them to play other parties off against each other to gain additional influence in coalition talks. Of course, the FDP is far from the Greens on many issues but would have an incentive to make a "traffic light" coalition work, if it is its only route into power. At present, the CDU/CSU's only viable coalition option may be with the Greens and therefore it is important for the CDU/CSU to ensure that this is also the Greens' only option. To do that (i.e., prevent a traffic light coalition), the CDU/CSU likely needs to win 30% of the vote.

Figure 2: German coalition options



Many twists and turns to come

With five months to go until the election, the polls are still likely to see a lot of movement. First, some of the decline in CDU/CSU support in the polls reflects widespread dissatisfaction with the recent handling of COVID-19. However, the government has now passed a federal law to improve the application of the tiered restrictions at the municipal level. And, more importantly, the sharp step-up in vaccinations means that perceptions about how the pandemic is being managed could improve significantly by the time of the election.

Second, the fight between CDU leader Laschet and CSU leader Markus Söder about who should be the CDU/CSU's candidate for chancellor was turbulent. We doubt the process will be reopened, despite Laschet's low popularity in national polls, as the CDU's eventual support of Laschet reveals significant fears about the party's unity. In particular, having had

to go through two leadership contests to find an internal successor to Merkel, it would reflect badly on the party's ambition to be Germany's leading party if its leader cannot manage to be the main candidate for chancellor. For the same reason we doubt that a new candidate such as Friedrich Merz will emerge from within the CDU itself. The test therefore will be how strongly the CDU and its Bavarian sister party, the CSU, gets behind Laschet to boost his popularity. Laschet has already tried to bring Merz into his election team.

Our best guess remains that the CDU/CSU will recover sufficiently in the coming months that the main coalition option will be a CDU/CSU-led government with the Greens. This would provide a lot of continuity from the current government, with Laschet similar to Merkel in many ways and the Greens replacing the center-left SPD. But, of course, this is only a base case, with a lot of time to the election.

What do the Greens want?

As a lot hinges on the Greens, it is worth looking at them in more detail. The Greens emerged in the 1980s and were in government from 1998 to 2005 as junior partner to Gerhard Schröder's SPD. Under Winfried Kretschmann, they currently lead one of Germany's largest states, Baden-Württemberg (since 2011), with the CDU as junior coalition partner. The case of Kretschmann shows that the Greens can win elections and govern successfully if they pick the right personality and take a centrist position. Kretschmann has managed to govern pragmatically on a green platform in a state that is home to some of Germany's largest industrial companies. Annalena Baerbock may be a very similar candidate and has received a very good initial response to her nomination as her party's candidate for chancellor. She is very pro-EU and favors further integration, but also has many centrist views.

The Green's election manifesto offers insight into the party's positions. Of course, there is a very large focus on green policies. But, the party also favors making the EU Recovery Fund a permanent part of the EU budget so that it can invest in the future (e.g., in the green transition). It supports reform of the EU fiscal framework so that countries do not come under excessive pressure to consolidate their budgets, which can lead to cuts in investment spending. It wants to give the EU a permanent fiscal capacity so that it can respond to future crises and relieve pressure on the ECB. It proposes extending the ESM into a European Monetary Fund. It wants a European Deposit Guarantee Scheme. It supports giving the ECB a dual mandate for price stability and high employment. It supports Germany's strict constitutional debt brake on regular expenditures but with an extension to allow "limited" new debts for investment. It plans a "modest" increase in the higher rate of income tax, higher taxes on capital gains for wealthier individuals, and an annual wealth tax of 1% on those owning

more than €2 million. It also wants to raise the corporate tax rate to 25%. Finally, the Greens support reform of Germany's constitutional debt brake to allow for higher levels of public investment.

Clearly, the Greens favor giving greater support to individual countries at the EU level and a looser fiscal policy stance at home, especially for the purpose of boosting green investments. But, the 137-page election manifesto does not offer any quantification of individual measures and where they would leave German fiscal policy overall. The Greens would not focus on the "black zero" as the CDU/CSU has done but this objective never made much sense to us and goes far beyond the requirement of the domestic debt brake and the European rules. As discussed below, the Greens would unlikely lose sight of the broader objective of the debt brake either, so that any change in fiscal policy may be more about the content than the overall stance. Similarly, statements about EU reform (e.g., the creation of a European Monetary Fund) are hard to assess unless the details are laid out. On this, we also think that the Greens cannot ignore German public opinion completely and would therefore move cautiously and insist on some incentive mechanisms. The exact stance of the Greens would also depend on the composition of the coalition, with the FDP acting as a constraint in a traffic light coalition and the CDU/CSU acting as a constraint in a Kiwi coalition. In contrast, the Greens could act more freely in a GRR coalition with the SPD and the Left Party.

Greens' proposal to reform the fiscal rules

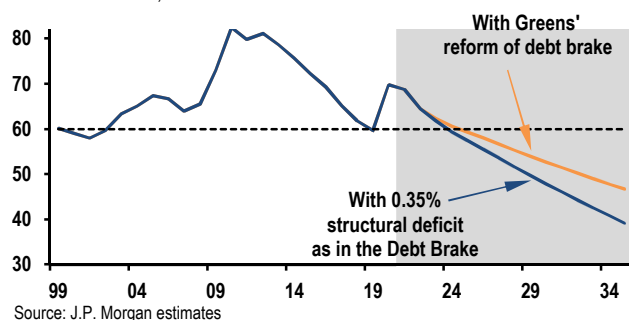
In late 2019, the Greens published a position paper about reforming the domestic debt brake and also made some comments about reforming European fiscal rules. The paper was co-authored by Baerbock. On the domestic side, the proposal differentiates between current expenditures (incl. on education and equality) and longer-term investments. Current expenditures would be financed entirely with tax receipts and the requirement for state/local budgets to be in balance would also remain. By contrast, some longer-term investments would be financed through public investment entities (e.g., an entity for electric charging points), which are in some cases already allowed outside of the constitutional debt brake. The Greens would provide public capital and guarantees so that the entity could raise money in markets; the entity would also have a repayment schedule.

In essence, the Greens want to expand Germany's constitutional debt brake so that it is aligned with European fiscal rules. At present, the German rules are tougher as they limit the structural deficit to 0.35% of GDP, whereas the European rules allow a structural deficit of 1% of GDP if debt is below 60% of GDP. This equates to €35bn rather than €12bn and would be paid into the investment vehicles. It is not clear if or

how this would be levered up but there would be a longer-term repayment schedule. The Greens note that even with this reform proposal German government debt would fall toward 40% of GDP, especially if the additional investments boost growth (Figure 3). The Greens also write that the fiscal consolidation of debt from 80% to 60% of GDP after 2009 was a “success.”

Figure 3: Germany government debt

% of nominal GDP, dotted line is 60% Maastricht limit



Regarding the European fiscal framework, the Greens’ position paper notes that rules are important in a monetary union. The main reform proposal they make is to allow public investment to be “depreciated” over a longer period so that they do not affect the deficit entirely at the start. The aim is to reduce the cyclical nature of public investment, which is often easiest to cut in a downturn.

New personnel, similar direction

In general, our sense is that differences between Germany’s centrist parties are often overstated. German public opinion is very pro-EU, but also supports prudent fiscal policy and incentive mechanisms that encourage sustainable outcomes. The latter also applies to European rescue measures. The SPD is also aware of this and has moved even more cautiously than the Greens on the domestic fiscal stance. In particular, the SPD has only proposed to fully exploit the structural deficit allowance of 0.35% of GDP allowed by the domestic debt rule. In fact, only the Left Party wants a clearer change. It is also worth noting that the position of the FDP and many in the CDU/CSU remains hawkish on fiscal and EU policy. In a recent debate in the Bundestag, the suggestion by Finance Minister Scholz (SPD) that the EU Recovery Fund is a first step into a fiscal union was rejected very clearly by subsequent speakers from the CDU and SPD in the debate. In fact, some of them put aside their prepared speeches and used their time to reject Scholz’s claim.

In our view, public opinion on fiscal and EU matters will create continuity after the Bundestag election as it acts as a restraint on the center-left parties. At the same time, the tone of debates in Germany would likely change in a direction per-

ceived as positive in Southern Europe if the Greens become the largest party after the election and lead a new coalition government. And there is of course the possibility that parties deviate from their election manifesto after an election, at least to some extent.

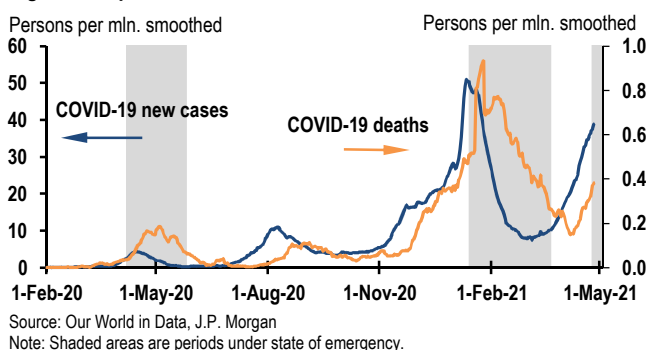
Economic Research Note

One-third is a critical target for Japan's vaccination

- **Despite fewer infections than its peers, Japan has struggled to balance infection control and economic activity...**
- **...as pressure on the medical care system forced the government to impose stringent restrictions**
- **Vaccination of the elderly, who face higher hospitalization risks, is critical to avoid restrictions**
- **We expect this to be completed during the summer, allowing a sustained, full-fledged economic recovery in 2H**

With rising infection cases, Japan's government renewed the state of emergency in some prefectures including Tokyo and Osaka starting from the last week of April (Figure 1). This is the third time the government has issued a state of emergency since the pandemic began. Indeed, soon after the government lifted the second state of emergency in late March, mobility jumped to the highest level since early 2020, partly due to fiscal year-end seasonality (Figure 2). As a result COVID-19 infections rose rapidly, requiring the government to impose more stringent restrictions than during the winter months. This time, business suspensions are required for some services such as large shopping centers and amusement parks, and restaurants and bars are banned from serving alcohol. The new state of emergency so soon after the lifting of the previous one likely will damage the consumption recovery that has just started, indicating that Japan is still struggling to balance infection control and economic activity.

Figure 1: Japan's COVID-19 new cases and deaths

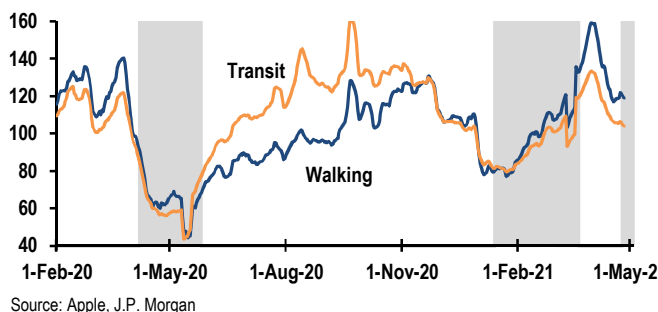


Although the number of COVID-19 infections in Japan has not been as high as in the US and Europe, a rising hospital bed utilization rate repeatedly required the government to impose tight economic restrictions to curb infections. As the number of critical COVID-19 cases increases, hospital bed utilization in some areas is approaching capacity, constraining

medical care provision for other diseases. The risks of COVID-19-related mortality and severe illness are highly concentrated among the elderly and remain limited for other age groups. This suggests that reducing the number of infections among the elderly is critical for Japan to avoid imposing business restrictions. Against this backdrop, the government is currently prioritizing vaccination of the elderly. Although the pace of vaccination remains slow, due to limited vaccine supply, the government is stepping up efforts to increase the supply after June. If this succeeds, and vaccination of those over 65, who account for about one-third of the population, progresses during the summer, the government likely no longer will be required to impose stringent business restrictions. Basic infection prevention measures, such as wearing masks and limiting the number of people at large events, would still be required until the population is fully vaccinated, but Japan's difficulties in achieving both infection control and strong economic activity likely will be eased. We expect this to occur during the summer, allowing a sustained, full-fledged economic recovery.

Figure 2: Japan's mobility

Jan 13, 2020=100, 7days ma, shaded areas are periods under state of emergency



Hospital bed capacity is a critical factor

The spread of COVID-19 in Japan has been much more limited than in other developed countries. By late April 2021, less than 1% of the total population had been infected and 78 people per million population have died from COVID-19. Indeed, the total number of COVID-19-related deaths in Japan barely exceeded 10,000 on April 26, which is about the same as the government-estimated annual number of influenza-related deaths. These numbers are similar to other countries in the region, but far lower than in the US and Europe where close to one-tenth of the population has been infected and close to 2,000 people per million population have died (Figure 3).

Although COVID-19 infections and related deaths in Japan have been much lower than in the US and Europe, Japan has repeatedly faced risks of medical collapse as the number of infections increased. The government introduced a system to isolate patients with only mild symptoms by renting hotels

after the pandemic began, but even so, it has not been able to avoid hospitals approaching capacity as COVID-19 infections rise. Thus, as the number of infections rises, it causes concern that hospitals would be unable to provide medical care to non-COVID-19 patients, requiring the government to reinstate the state of emergency. Indeed, both the second state of emergency in the winter and this third one were instituted after the hospital bed utilization rates in large prefectures reached over 80% (Figure 4).

Figure 3: COVID-19 cases and deaths

COVID-19 deaths per million

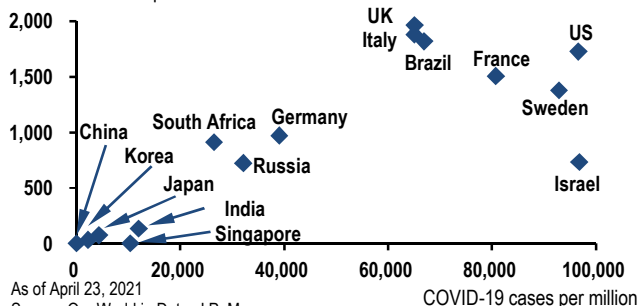


Figure 4: COVID-19 hospital bed utilization

%, shaded areas are periods under state of emergency

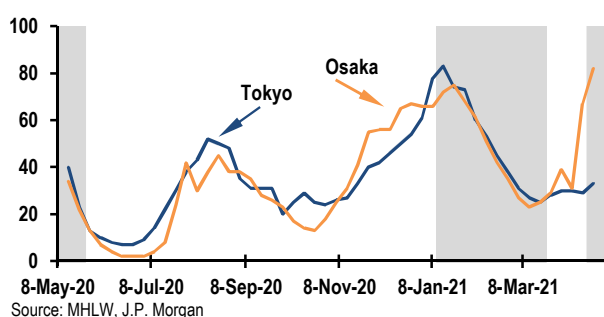
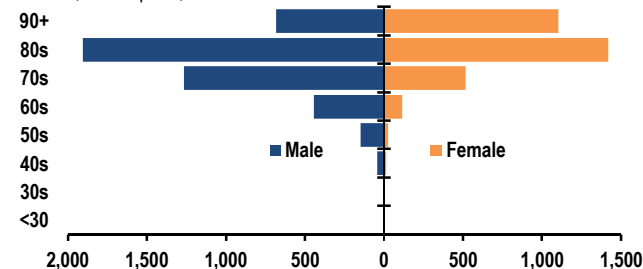


Figure 5: COVID-19 deaths by sex and age group

Persons, as of Apr 19, 2021



Looking at the mortality and aggravation rates, which are critical factors for the hospital bed utilization rate, there remains a marked difference by age group. Most of the COVID-19 deaths in Japan to date have been among those 60 and over, while less than 3% of total deaths were reported for those 59

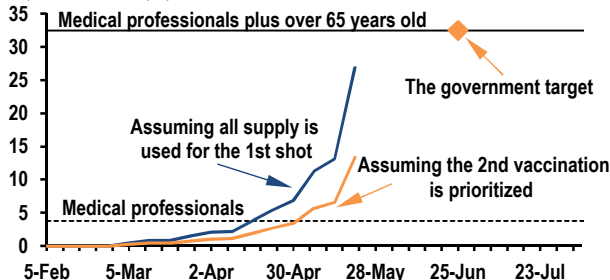
and under (Figure 5). The Ministry of Health, Labor, and Welfare reported a similar trend for those getting seriously ill, with the rate for people aged 60 and over high at 8.5% and the rate for age groups 59 and under remaining low at 0.3%. Thus, to avoid shortages of hospital beds, reducing the risk of infection in the elderly appears to be critical.

Vaccine supply remains the key

The government started vaccination of the elderly aged over 65 in mid-April, aiming for them to be fully vaccinated by end-June. However, vaccine supply likely will remain limited through end-May. According to the government's announced schedule, less than half of the targeted elderly likely will be able to secure vaccines for the second shot by late May (Figure 6). In fact, although many local governments are ready for inoculation, the supply of vaccines remains a bottleneck, resulting in a public backlash, particularly among the elderly. Although the government has announced that it has already secured vaccines for the entire population by year-end, it is still uncertain when doses will become available.

Figure 6: Vaccine supply schedule

In percent of total population, %



If vaccine supply increases after June as the government expects, vaccination of the elderly likely will be almost completed during the summer. This should significantly reduce the mortality and aggravation rates of COVID-19 infections, reducing pressure on the medical care system. Once this condition is met, the government is unlikely to need to renew the stringent business restrictions of the state of emergency, although certain infection prevention measures would still be required until the vast majority of the population is fully vaccinated. With solid underlying demand, as indicated by the strong rebound in consumption in March, the month when the second state of emergency was lifted, we expect economic activity to pick up in 3Q21 alongside the increase in vaccinations of the elderly. We expect real GDP growth to surge to 9.0%q/q, saar, in 3Q, following a modest 2.0% gain in 2Q. For Japan, vaccination of the elderly likely will facilitate a balance between infection control and economic activity, which we expect will be achieved during the summer.

Economic Research Note

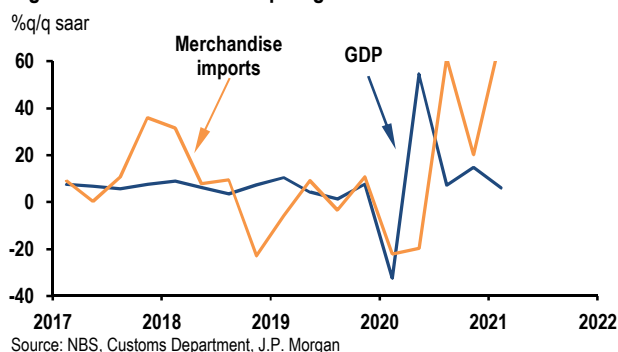
China's import demand reflects economy's growth dynamics

- China's imports accelerated in 1Q21 despite temporary slowing in domestic demand
- Solid external demand boosted processing imports; electronics imports boomed amid US-China tech tensions
- Recent commodity demand strength could ease with moderating investment growth and inventory buildup
- De-carbonization policy may cause domestic supply constraints, supporting commodity prices

Having returned to its pre-pandemic growth trend by 4Q20, the Chinese economy slowed going into this year. GDP growth eased to 4.3%/q, saar in 1Q21 (from 14.1% in 4Q20) by our estimate. The 1Q GDP report highlights divergent growth paths between different sectors of the economy: while exports grew a vigorous 49.2%/q, saar in 1Q amid strong global demand, domestic consumption was disrupted by cross-regional travel restrictions imposed during the Lunar New Year holiday period, and fixed investment was restrained as policy normalization began to kick in.

Intriguingly, despite moderating growth in the overall economy, led by a temporary slowdown in domestic demand, merchandise imports (in US\$ terms) surged 70.5%/q, saar (Figure 1). Exploring the factors behind recent import strength provides insight into the economy's growth dynamics, with potential implications for global commodity markets.

Figure 1: China GDP and import growth



Broad-based imports bounce

China's recent import boom is broadly based, reflecting key features of the economy's recovery. First, significant merchandise export growth since 3Q20 has driven a rebound in demand for related inputs, with processing imports (19.6% of total imports) growing 36.4%/3m/3m, saar in March (Figure

2). A breakdown of imports by major product category highlights solid, persistent strength in electronics (23% of total imports) in recent quarters (Figure 3), reflecting not only strong tech demand through the pandemic, but also Chinese corporations increasing purchases of tech inputs amid intensifying US-China tension on the technology front and the Chinese government's policy tilt to support high-tech industries. Also, price increases have boosted China's import bill: given the global oil price rebound, nominal oil imports (16.7% of total imports in 2019) surged 345%/3m/3m, saar in March, accounting for one-quarter of overall import growth in 1Q21.

Figure 2: Exports and processing imports

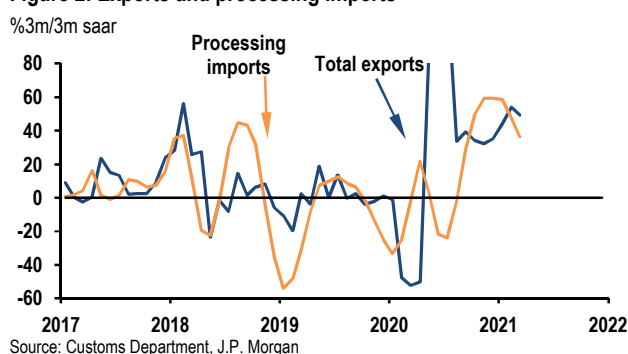
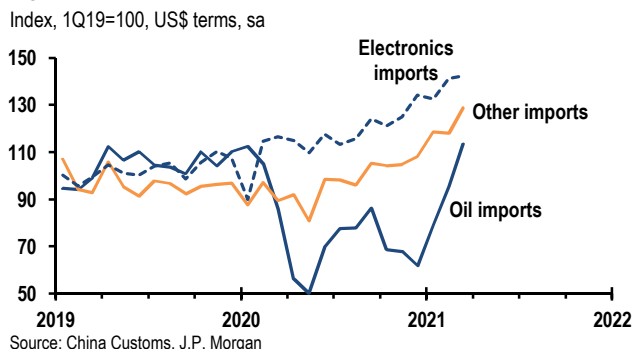


Figure 3: China imports breakdown

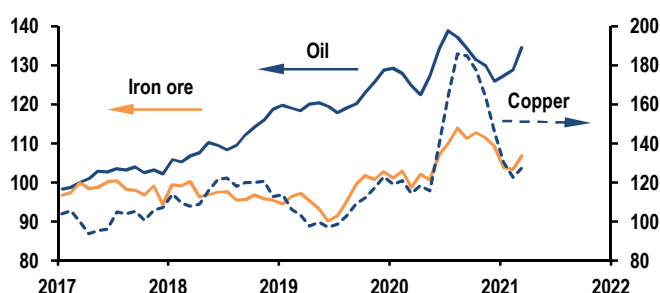


FAI outlook and commodity demand

The part of China's imports most sensitive to domestic demand is its commodity purchases. In addition to oil imports, which have marked steady structural growth in real terms (averaging 9% ar in the past five years, Figure 4), industrial metals imports have closely tracked China's fixed investment cycle (Figure 5). It is thus not surprising that, as the government's post-pandemic macroeconomic policy support since April last year focused on support for public investment, boosting infrastructure and real estate investment in particular, imports of key industrial metals boomed, including iron ore (growing 9.3%/y in 2020) and copper (34.2%), despite the notable slowing in headline GDP growth to 2.3%/y.

Figure 4: Commodity import volume

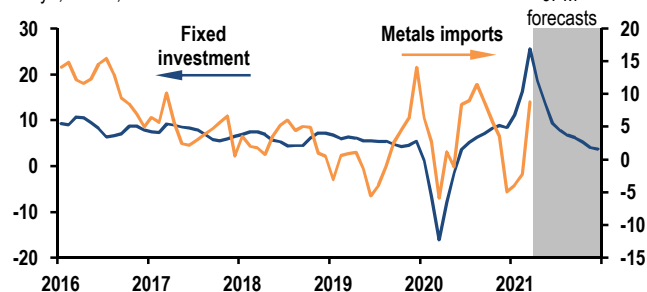
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Source: Customs Department, J.P. Morgan

Figure 5: Fixed investment and metals imports

%yoy, 3mma, both scales

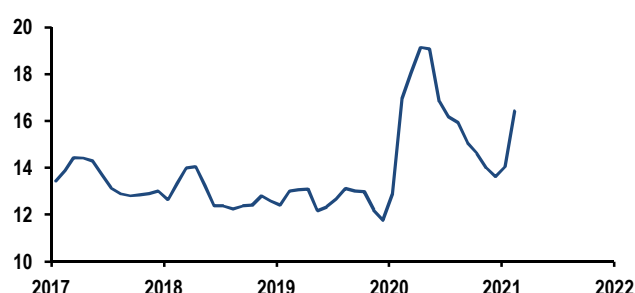


Source: NBS, China Customs, J.P. Morgan

Looking ahead, in our view, 2021 will be a year of normalization for China on both the macroeconomic policy and growth fronts, given the solid economy recovery and as policymakers' focus has turned to containing financial risks and ensuring medium-term growth sustainability. Our baseline forecast assumes a rotation from investment- to consumption- and services-driven growth, while fiscal and credit policy consolidation should lead to easing growth momentum in credit-intensive sectors, including infrastructure and real estate. As FAI growth moderates in the coming quarters (Figure 5), it seems demand for commodities, especially industrial metals, is unlikely to maintain its recent strong growth momentum.

Figure 6: Steel product inventory

million tons, 3mma



Source: WIND, J.P. Morgan

The latest industrial inventory data trends also shed light on China's near-term commodity demand. While steel sector

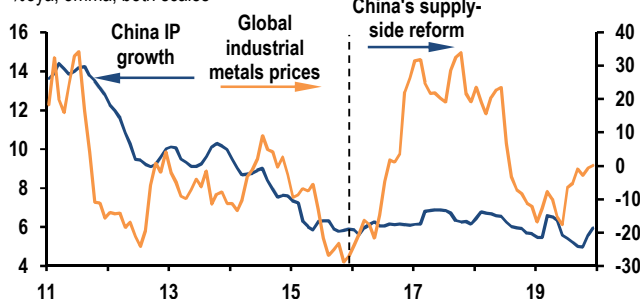
inventories had normalized late last year following the earlier COVID-19-related involuntary accumulation, inventory has spiked again in recent months to well above the pre-pandemic average (Figure 6) following the strength in commodity imports since the middle of last year. While the proactive buildup of inventories is a common phenomenon during the early stages of recovery in the [industrial and investment cycles](#), the outlook for macroeconomic policy consolidation and growth rotation away from the credit-intensive sectors suggests, it would take some time for manufacturers to clear the stockpiled inventory.

De-carbonization and industry policy

Besides demand-side factors evident in near-term industrial cycle dynamics, government policies could impact production activity and the pricing environment in the commodity sectors. For example, as part of its supply-side reform program, beginning in early 2016, the Chinese government rolled out multi-year capacity reduction targets for overcapacity sectors including steel and coal. [As a side effect of the program](#), China's steel exports declined and coal and metal imports surged. Indeed, while China's industrial cycle tends to be closely tied to global industrial metal prices, amid China's supply side reform program, global metal prices spiked while China's overall IP and FAI growth remained steady (Figure 7).

Figure 7: China IP and global industrial metals prices

%yoy, 3mma, both scales



Source: NBS, J.P. Morgan

This time, the most significant industry policy will be the government's [aggressive de-carbonization program](#), as China aims to achieve peak carbon emissions by 2030 and carbon neutrality by 2060. In the near term, this could be reflected in intensifying policy pressure for environmental protection and green economic development, with the carbon-intensive industry sectors (e.g., steel) being pushed to not only cut capacity but even curb production. Broadening and strict application of such policies could lead to domestic supply constraints, rising product price pressure, and potentially support commodity import demand (J.P. Morgan's commodity team points out that China could become a net steel importer in the long run, see "China steel," April 25). In this regard, we note that domestic steel prices have spiked 36% in the past six months.

Economic Research Note

India: Economic response to the second wave

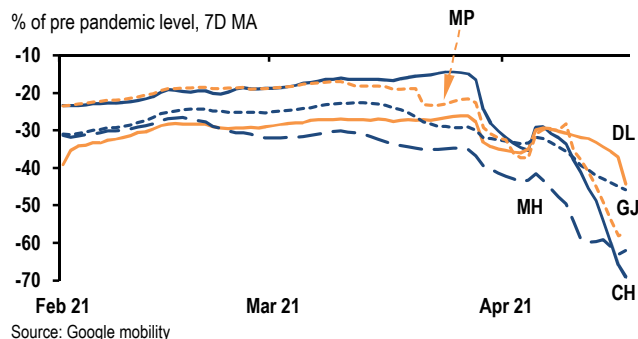
- The economic impact from India's second wave is mounting
- The shock is likely to be more heterogeneous, more asynchronous, and (we hope) less enduring than last year's...
- ... suggesting a state-specific fiscal response focused on providing relief to prevent more reverse migration
- Relief apart, stepping up vaccination remains the best route to enduring normalization

Is this time different?

As India's second wave continues to surge, the economic fall-out mounts. Retail and recreational mobility are down 20% over the last month, as is a broader index of activity from its February peak. Labor force participation has fallen and unemployment has climbed. Less quantifiable, but more compelling, are images of migrant workers preparing to leave cities and head home for the second time in a year.

Much has been written about the needed public health response to the current health crisis. But what should the complementary economic response be? To answer this, it's crucial to distinguish the current situation from a year ago. Back then, the country went into a nationwide lockdown of uncertain duration. Given the lockdown's uniform impact throughout the economy, a centralized fiscal and monetary response was necessary. This time, the economic impact is likely to be much more varied, asynchronous, and (we hope) less enduring:

Figure 1: Select states Google retail & recreation mobility

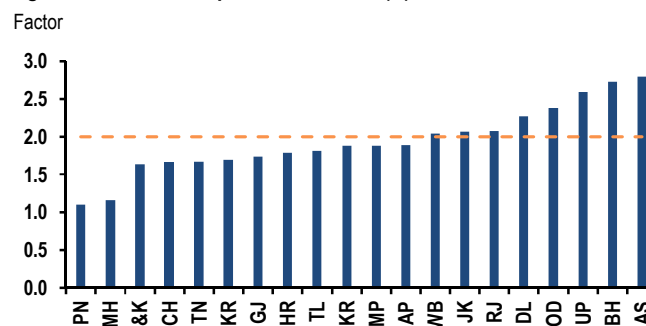


Heterogeneous, because states have been hit to varying degrees, have different health infrastructure, and therefore will be forced to impose restrictions of varying stringency. Over the last month, recreational mobility is down 60% in Chhattisgarh, 45% in MP, and 35% in Maharashtra but only

5% in Tamil Nadu (Figure 1). The economic impact is therefore likely to vary widely across states.

Asynchronous, because different states will likely be hit at different times. With the national reproduction number stuck stubbornly close to 1.5, restrictions on activity is the best near-term antidote to take pressure off the health system (Figure 2). As the virus proliferates, a staggered, rolling set of local restrictions across states appears inevitable.

Figure 2: State-wise reproduction factor (R)



Source: University of Michigan

Less enduring, because stepped-up vaccinations, while not protecting people completely, can limit the frequency and severity of subsequent waves. Once a substantial fraction of the population is inoculated, pressure on the health care system should abate, obviating the need for repeated lockdowns even as it takes time to attain herd immunity. Nevertheless, the current wave has the potential to create a deep growth pothole in the current quarter.

Fiscal, not monetary

When a monetary union is confronted with asymmetric shocks to its members, the optimal response is state-specific fiscal policy, instead of a one-sized-fits-all monetary response. The first line of defense should therefore be states providing fiscal relief, commensurate with the shock. In particular, the immediate focus should be to prevent a continued exodus of migrant labor. Even before the second wave, labor market scars were visible. India's employment/population ratio remains 2%-pts below the pre-COVID-19 level and demand for the rural job guarantee scheme was almost 20% above normal in March, suggesting some migrants still had not returned after heading home last year. Another exodus could further reduce the appetite to return. This would be a sub-optimal reallocation, with excess labor in less productive rural jobs while high-productivity urban jobs remain vacant—a pure deadweight loss. Economic costs don't take into account the humanitarian toll on these families and the likelihood that many will carry new coronavirus variants back to the hinterland.

Income support by states

States could thus seek to pre-emptively announce income support for migrants and the urban poor—in cash and kind—to prevent another exodus. In welcome moves, both Maharashtra and Delhi have announced cash transfers for registered construction workers and free meals. Different states can tailor income supports based on local identification mechanisms and state capacity.

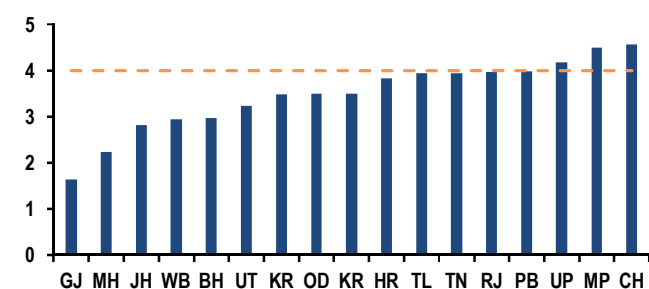
The Center will have to play a complementary role. Its recent decision to distribute free grain and pulses for two months was much needed. Furthermore, to the extent that some reverse migration is inevitable, it will be crucial to ensure MGNREGA work is available in the hinterland for all that seek it, and that the budgetary allocation for MGNREGA increased commensurately.

Focus on relief with stimulus in pipeline

The fiscal thrust should focus primarily on relief for now, rather than any thoughts of stimulus which already is in the pipeline. Aggressively stepping up vaccination will constitute the most enduring stimulus in the coming quarters. Furthermore, both the central and state governments have budgeted much higher capital expenditures, which could meaningfully boost activity later in the year. A booming global economy also should help. The fiscal focus, for now, should be squarely on relief and on minimizing labor market dislocation.

Figure 3: State budgeted fiscal deficit (2021-22)

% of GDP



Source: J.P. Morgan

But how much fiscal space is there? State deficits are capped at 4% of GDP this year and the finances of the 17 largest states reveal consolidated state deficits budgeted at 3.3% of GDP. So there is space to borrow, even under the current fiscal road-map. Indeed, the worst-hit states—Maharashtra and Gujarat—have budgeted very low deficits (2.2% and 1.6% of GDP, respectively), have low debt, and therefore can respond more aggressively (Figure 3). Other states are much more constrained, and should be permitted to borrow for relief or vaccinations to prevent crowding out other expenditures.

With consolidated public debt at 90% of GDP, fiscal space is limited. But relief spending amid this public health crisis should

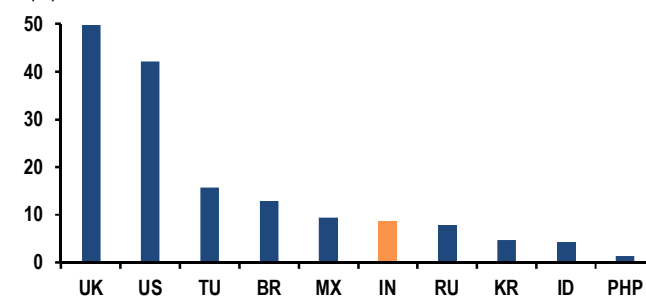
take precedence, and will more than pay for itself by preventing distortionary reverse migration. Spreads of state government yields over central government bonds have narrowed lately. If higher state borrowing widens spreads, the RBI can always redirect a fraction of its GSAP toward state bonds and/or temporarily increase HTM limits to narrow spreads.

Vaccination the key to normalization

Near-term relief apart, stepping up vaccination remains the best route to economic normalization. India's challenge and opportunity is to significantly augment supply, leverage the private sector's dynamism for a fast and efficient roll-out, and yet ensure—given the strong positive externalities from vaccination and per capital income levels at the bottom of the pyramid—the vaccine is subsidized/made-free for all appropriate parts of the population. (Figure 4).

Figure 4: Select countries vaccination

% population with atleast one dose of vaccine



Source: Our World in Data

That said, one needs to be mindful of the distortions created by dual pricing. If the vaccine is free for certain groups or at certain locations (public hospitals), but costs Rs 600-700 for the rest, the incentive to divert and create a black market will be strong. This can create shortages among those for whom free vaccines are intended. Rather than “public” and “private” prices for the same vaccine—with risks of arbitrage between the two—policymakers could route the subsidy through a “vaccine voucher” to reduce diversion. All intended beneficiaries would be eligible for an electronic vaccine voucher allowing them to obtain the vaccine for free, with the provider compensated directly by the government. This would provide a subsidy without creating dual market prices.

The heterogeneity and asynchronicity of the current shock argue for a state-specific fiscal response as the first line of defense, backstopped by the central government. In conjunction, policymakers could roll out vaccine vouchers to hasten vaccinations. We think this would be the best use of fiscal resources in the near term, and provide the best chance of ensuring hysteresis from the first wave is not accentuated in the second.

Economic Research Note

Australia: (No) Vacancy

- Job vacancies hit record highs in 1Q21, and are very elevated relative to the unemployment rate
- Perversely, vacancies are strongest in sectors that were big users of JobKeeper (JK), like accommodation and food services, where sales are still down
- Vacancies signal future hires for some, but don't count job losses of others, and both flows are significant given conditions vary greatly across firms and industries
- As JK ends, the data suggest affected firms would release sufficient labor supply to fill vacancies elsewhere

The Australian economy has broadly followed the V-shaped template sketched out a year ago for the initial leg of the recovery. [GDP is growing near expectations, but that outcome has been achieved with more jobs, and fewer hours worked](#) than expected. Jobs matter for the unemployment rate, which is about 1.5%-pts lower than expected a year ago. In our view (link above), this reflects the prior success of government programs in maintaining attachment to work, even at depressed levels of output. However, with employment still out of sync with output, headwinds lie ahead, and the interpretation of leading indicators of labor demand is messy.

A number of forward indicators of labor demand have spiked lately. These include the NAB business survey, ANZ job advertisements, government skilled vacancy data, and the ABS vacancies series. Here we outline how we have been interpreting these numbers.

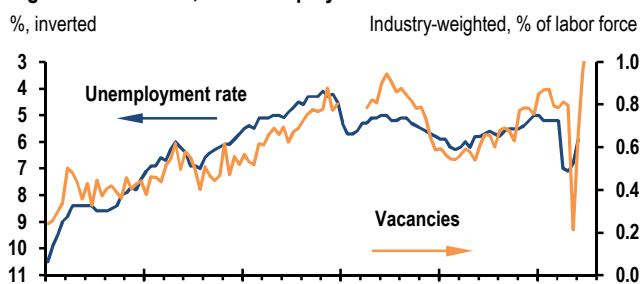
In brief, it is not surprising to see a large increase in vacancies after last year's collapse, and given the huge differences in conditions across firms, let alone industries. Vacancies count the good (intended hiring) but not the bad (retrenchment), so the greater the variance across firms/industries, other things equal, the stronger vacancies will be. But care must be taken in translating this into unemployment predictions.

The relative performance of vacancies across sectors corresponds well with the level of employment relative to sales. We conclude that the JK subsidy has sustained employment for firms facing difficulties, while potentially creating shortages for others within their sector. With JK now terminated, we should see switching of jobs within sectors. At face value the employment overhang from JK is comfortably big enough to fill this gap. Therefore, vacancies should normalize but without initially having much impact on the unemployment rate.

Celebrate the wins, don't count the losses

[Industry divergences](#) were extreme during the initial COVID-19 shock in 2Q20. And as discussed in the first link above, the early outperformers in industry-level employment have generally continued to outperform. Still, we have been cautious in putting too much stock in the precise levels of the business surveys lately. We already know the economy has been growing quickly, the question is whether surveys help calibrate the magnitude. That mapping generally has not worked well for extreme, non-linear shocks, even at the global level (see for example [this discussion on translation of the global PMIs to GDP](#)). There are similar apparent issues with job advertisements and vacancies. Figure 1 shows job vacancies didn't do a great job calibrating the downturn, and would have suggested an unemployment rate 2%-3%-pts higher than what eventuated over 2Q/3Q last year.

Figure 1: Vacancies, and unemployment



Source: ABS, J.P. Morgan. Each industry-level vacancy series is weighted by industry share of employment to account for differing turnover rates. The sum of these is divided by labor force.

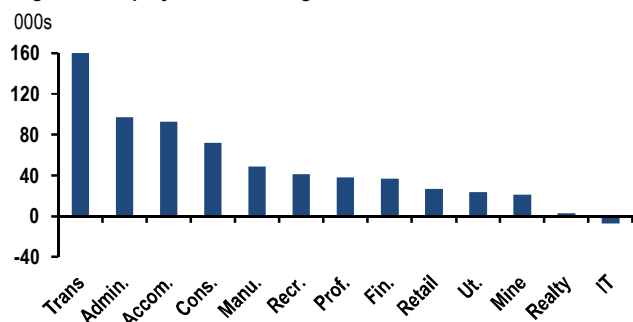
A close look at Figure 1 also shows the ABS vacancy data were unfortunately (temporarily) discontinued during the GFC. We therefore don't have much history to observe how these data have behaved around previous non-linear events. Still, we can make a few observations. First, as mentioned above the vacancy data were a noisy indicator of unemployment during the downturn. More problematically, job vacancies have a clear conceptual asymmetry in that they count only one side of the employment flow equation. No one advertises jobs that are lost. The asymmetry matters when demand conditions differ vastly across firms and industries, as they have during lockdowns/activity restrictions, and the recovery.

Accommodation: Vacancy/no-vacancy

The accommodation and food services sector is the best single example of within-sector variation across firms. The sector experienced among the sharpest initial falls in 2020, but now leads the economy on vacancies. This has occurred despite the fact that sales in that sector are still down 12%oya on average, much more than overall output (-1.1%oya). And, employment already appears too high. As discussed in prior research, the

JK wage subsidy has [sustained higher employment than one would expect from regressions vs. industry sales](#). It is no surprise that the implied overhang of employment vs. sales (Figure 2) is larger in industries that were big users of the JK scheme.

Figure 2: Employment overhang relative to sales

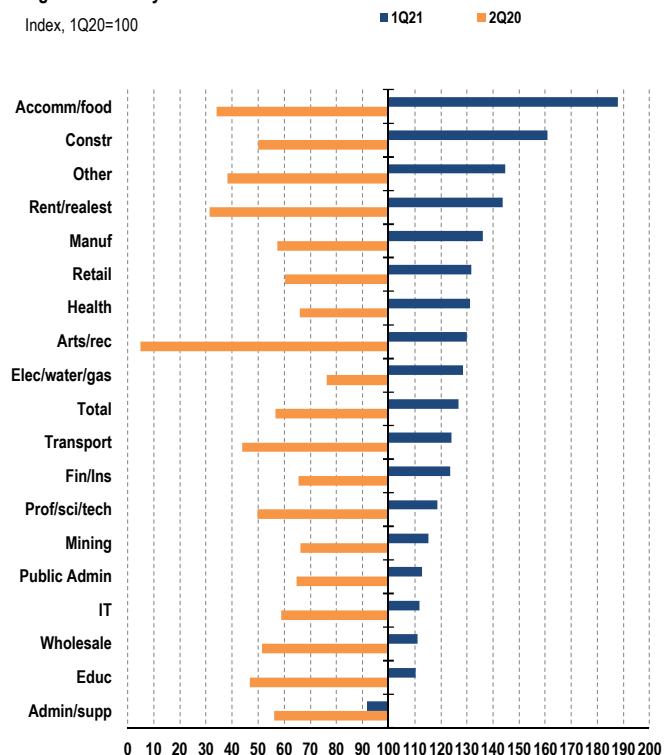


Source: ABS, J.P. Morgan. From regression of industry employment on sales.

With that scheme concluding at the end of 1Q, we expect many such jobs to disappear, slowing momentum in the labor market. At face value, it is therefore puzzling that several sectors that already have too much labor are also among the strongest on vacancies. Examples are accommodation/food service, construction, and manufacturing (Figure 3).

Figure 3: Industry vacancies

Index, 1Q20=100



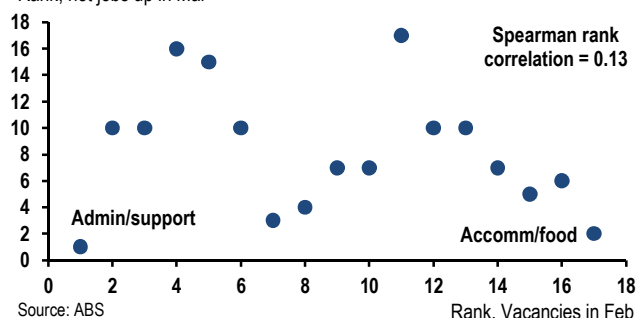
Source: ABS, J.P. Morgan

In our view the best explanation is that firms within some sectors are facing widely different circumstances, depending on their geographic location and exposure to restrictions and distancing. For a given level of average sector conditions, vacancies will be stronger, the greater the variation across firms, at least until the labor overhang of weaker firms is released.

To get a sense of both the good and bad within sectors, we turn to the ABS's business conditions and sentiments survey. In March, the month after the latest vacancy data showed the accommodation/food service sector leading all industries, the survey reported that 17% of firms reduced employment, and only 8% increased it. This was the second weakest net result across industries. Moreover, there is little overall relationship between a sector's net % of hiring and retrenchment, and its vacancies. This is shown by the weak rank correlation (0.13) in Figure 4. To demonstrate the lack of correlation, a counter-example to the accommodation/food service sector is administration/support, which ranked similarly poorly on net hiring, and is reporting very weak vacancies (Figure 3 again). By counting only the good and not the bad across firms, and also missing the upcoming post-JK release of labor, vacancies appear to paint a noisy picture of the net employment outlook.

Figure 4: Industry vacancies and within-industry job changes

Rank, net jobs up in Mar

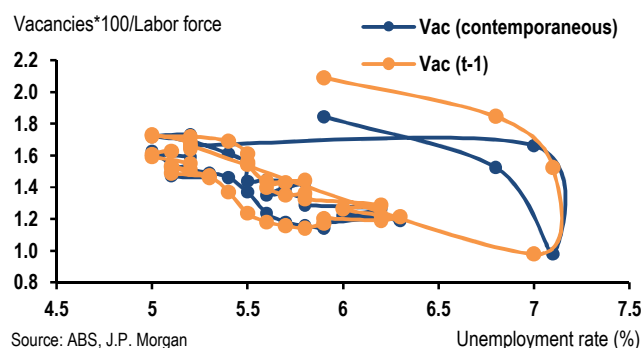


Source: ABS

Can I offer you a Beverage?

Figure 1 suggested that vacancies have an imperfect relationship with current and future unemployment. This can be traced out in a different way, by plotting vacancies vs. the unemployment rate, rather than over time (Figure 5). This is the so-called Beveridge curve. It is sometimes used to test for structural mismatches in the labor market that can matter for wages. For example, if vacancies are persistently high relative to the unemployment rate (a rightward shift), it can suggest a skills mismatch, such that vacancies cannot be filled despite existence of excess capacity. Over time this can put upward pressure on wages.

Figure 5: Beveridge curve (t and t-1 vacancies)



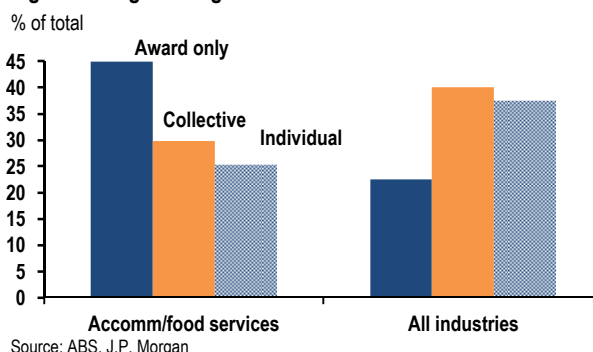
Over the last year we have seen a pronounced outward shift in the Beveridge curve, but we think the story is more straightforward than skill mismatches. Structural skills mismatches usually reveal themselves only gradually in the data. The recent move has been rapid, and has occurred during a period of sharp recovery, in which there hasn't been much time for a new, structural component of unemployment to develop.

The more likely cause for the apparent shift, and the related looseness of vacancies as a predictor of unemployment, is again that firms held on to more labor than necessary during the downturn. That pool of excess labor capacity within some sectors can be used to fill vacancies without any change in the level of employment/unemployment. This would move the Beveridge curve back to the left again. While we don't expect the transition from JK into vacancies will be immediate or seamless, the JK employment overhang measured above (700K) is comfortably larger than the level of vacancies (290K). Moreover, given that some labor market turnover is normal, a more appropriate measure for vacancies may be its deviation from the pre-COVID-19 average, which is smaller still (60K).

Make it worth my while

Can stronger wage outcomes fill vacancies quickly? In the short run, large changes in wage growth are unlikely. First, there is no historical precedent for wages accelerating without a sufficiently low unemployment rate. More pragmatically, at the institutional level, there isn't a clear framework to grant non-standard wage increases, at least in a way that would show up in official wage data. The sectors with the highest vacancies generally have a high share of wage-setting governed either by the Industrial Award legislated under the Fair Work Commission, or by collective bargaining, rather than individual bargaining (Figure 6) that would maximize the chance of steep increases.

Figure 6: Wage-setting mechanisms



Moreover, the average duration of collective bargaining agreements in such sectors is long (Figure 7). The standard agreement in the accommodation and food sector runs for nearly four years, and those in construction even longer. "Other services," rental/real estate, and manufacturing agreements all run more than two years. New arrangements reached in 2020 were struck at particularly weak levels, with wage gains 0.5%-pt below the five-year average, and 0.9%-pt below the 10-year average. The average duration of registered collective wage agreements across all sectors is also quite long, approaching three years (Figure 8). The implication is that not many agreements turn over in any given quarter, so not many can be refreshed during the window of strong vacancies.

Figure 7: Duration of new collective wage agreements

Average duration of wage agreements, 2020

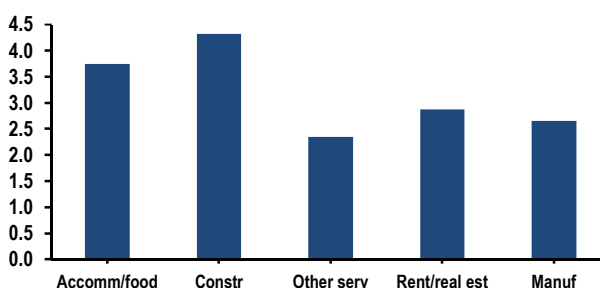
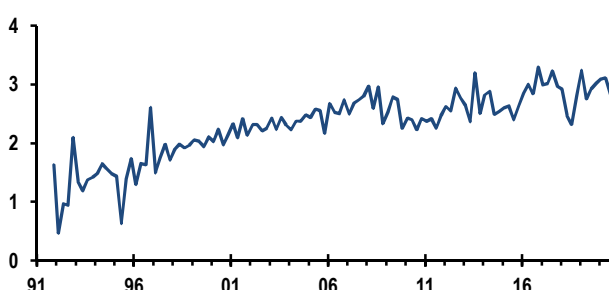


Figure 8: Duration of registered wage agreements

Years

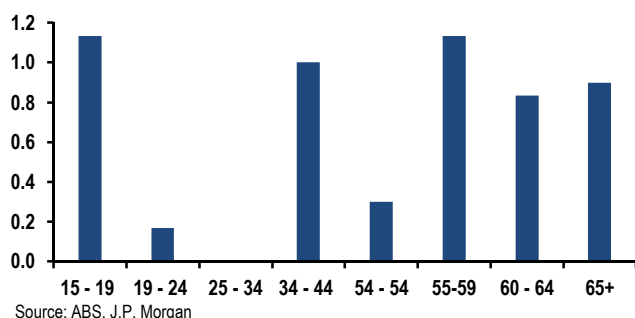


Supply is there, it's just waiting

The rise in vacancies is good news. But within the corporate sector, the strength also has been topical because vacancies are so far unfilled, and have occurred alongside a not-very-low unemployment rate. This appears to corroborate anecdotal reports of labor shortages that have been circulating for a while in some sectors. It also naturally segues to the broader question of how labor supply is evolving given limited immigration, a big shock to lifestyles and behavior, and generous government income supports.

The impact of closed borders was an important consideration in forming our initial projections of [how COVID-19 would weaken labor supply and potential growth](#). More than a year has now passed with effectively no net immigration that has indeed hit working-age population growth. Still, labor supply overall has surprised on the upside. Participation rebounded very smartly from the downturn, and is now above its pre-COVID level. Participation has been particularly strong in older age groups (Figure 9), which are also the most strongly growing bracket of the over-15-year-old population. This has been a positive surprise in the context of a pandemic, and given their population weight, increases in participation by those over 55 have a particularly large effect on the economy-wide rate.

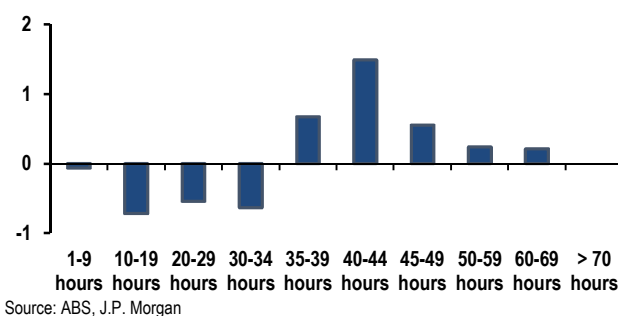
Figure 9: Participation rate change by age group
%-pts, annual change (1Q20-1Q21)



Another perspective is that output per employed person has been weak over the last year, while output per hour has been strong (first link above). Any aggregate shortfall in labor supply is therefore less likely to be in “heads,” and more likely in hours. In Figure 10, we have computed the distribution of employment according to individuals’ average hours worked, and how this has changed over the year to February. There has been a clear rise in individuals working 35-44 hours a week, and a downshift in those in the 10-19 hour bracket (note these are cumulative, not marginal).

Full-time and part-time employment performed very similarly over those 12 months, suggesting this is not an artifact of the job types. Rather, it appears that the hours demanded by firms are being spread among more jobs.

Figure 10: Cumulative distribution of employment by hours
%-pt, Feb 21 compared to Feb 20



In part this follows from JK having preserved, until 1Q, some jobs where the individual is working few to no hours. Supply equals demand, and there is a counterpart on the supply side, too. It seems likely that JK, and the accompanying JobSeeker welfare program (increased welfare payments, which also normalized at the end of 1Q), reduced the need for those who would ordinarily supply a small number of hours to do so. In both cases, the supply of productive hours has been suppressed somewhat by government support, and is likely to increase again now. Marginal increases in hours by those in low-average-hour brackets are also likely to contribute strongly to filling existing vacancies.

Economic Research Note

Brazil and Mexico: Growth contrasts in sickness and in health

- Latin America heavyweights are dealing with the pandemic quite differently
- Brazil used policy stimulus while Mexico's authorities remained idle, hurting growth-sensitive revenues
- Last year Brazil fared better, contracting "only" 4.1% versus Mexico's -8.2%
- Now Brazil is forced to hit the brakes and Mexico can ride on the US recovery
- Regardless of policy measures both countries continue to rank poorly on pandemic metrics

The policy response in 2020

Brazil and Mexico have moved in opposite directions over the last 10 years in terms of business cycle dynamics, policy guidance, investors' appetite, and very often, subject to political business cycle considerations. Notably, Brazil jumped on board the commodities super-cycle of the last decade, taking advantage of its vast supply of natural resources, a privileged endowment of land, advanced technology in the agricultural sector, and its strong links to Asia to adjust its external accounts and accumulate international reserves.

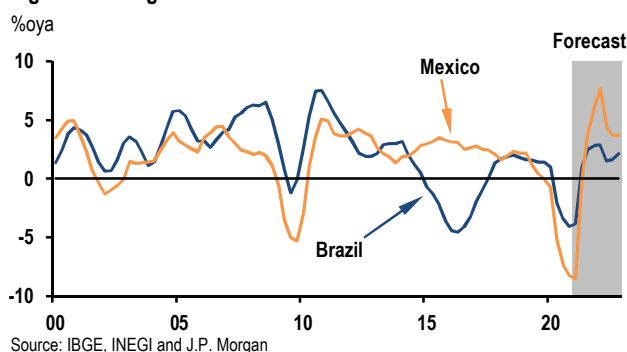
At the same time, benefiting from the stabilization in the second half of the 1990s and the micro-reforms of the 2000s, Brazil experienced a decade of rapid credit expansion that boosted domestic demand with the expansion of the middle class. Even later, when commodities prices were already declining, the country managed to delay the necessary adjustment, extending the credit cycle supported by fiscal and quasi-fiscal stimulus, which was partially responsible for the deep recession in 2015 and 2016.

Mexico, on the other hand, remained closely tied to the more stable US business cycle and broadly missed the benefits of the super-cycle given the country's declining share in oil production and exports and its gradual rotation toward an industry-driven economy—a process that started in the 1990s with the creation of NAFTA. In fact, after the 2001 US recession, China's accession to the WTO exacerbated Mexico's growth stagnation, while lifting activity in Brazil (Figure 1).

The normal dynamics of see-saw booms and busts in Latin America's heavyweights also materialized during the

COVID-19 pandemic, with Brazil adopting a policy response congruent with the nature of the global shock, but assuming it would end last year, cushioning its economic impact, while Mexico took a "neutral" approach of little fiscal support and gradual monetary easing.

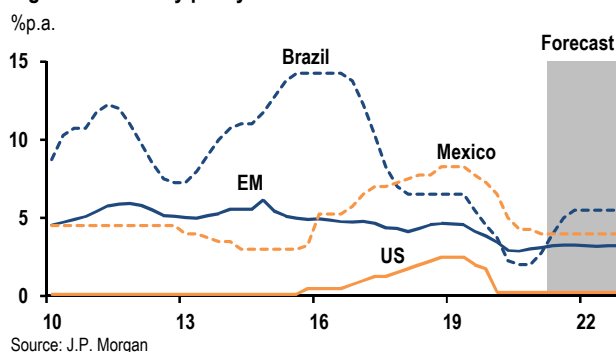
Figure 1: GDP growth since 2000



Of course the question of whether it is advisable to tolerate fiscal pressures or a deeper economic slump is becoming very important as we transition to a new stage of the pandemic. The question also is particularly complex, since the answer depends on the initial conditions in each country for both debt and growth, and the health policies adopted.

We already discussed in detail each [country's responses in a previous research note](#). In brief, Brazil mounted aggressive fiscal and monetary expansions whereas Mexico took more limited policy action. Brazil's fiscal response last year was more than 7% of GDP while in Mexico it was a timid 1.0%. From a financial and monetary policy perspective, BCB also engaged in more aggressive monetary easing, slashing rates to a record-low 2.0% by August 2020 and committing to stay there for some time by introducing explicit forward guidance on monetary policy management for the first time (Figure 2).

Figure 2: Monetary policy rate outlook



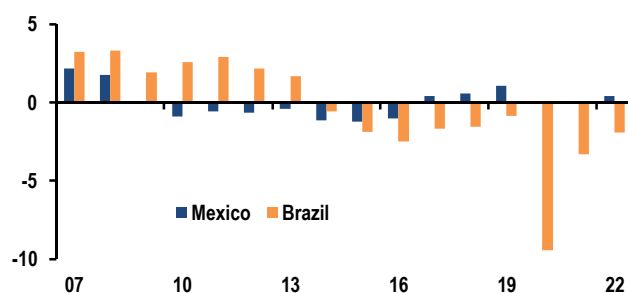
Meanwhile, Mexico continued with a rate-easing cycle that had lagged major emerging markets since 2019, only reaching 4.0% in February of this year and probably staying there from

now on, given upside inflation risks, financial stability considerations, and the limited power of monetary transmission. For what it is worth, Banxico combined the 425bp easing cycle with liquidity measures intended to ameliorate the pandemic's effects on the financial system, but so did Brazil and more aggressively than Mexico, reducing reserve requirements among other measures.

It was surprising that Mexico's fiscal policy was virtually unchanged given its greater space compared to Brazil (Figure 3). The previous centrist PRI administration (2012-2018) had already delivered a primary surplus since 2017, but the government of President Lopez Obrador (or AMLO) did not hesitate to underscore the importance of increasing the primary surplus by 0.5%-pt of GDP in 2019, arguing that austerity was needed to tackle corruption.

Figure 3: Brazil and Mexico primary fiscal balances

As % of GDP, Mex = forecasts from 2020-2022; Brazil = forecasts from 2021-2022



Source: Ministry of Finance of Mexico; Ministry of Economy of Brazil

The disappearance of public trusts, cuts in public sector employment, and a significant reduction in the public sector wage bill contributed to the president's rhetoric, but the government had to use rainy day funds and exert pressure on big firms to increase tax collection to keep the anti-corruption rhetoric alive and to avoid scrapping AMLO's favored projects.

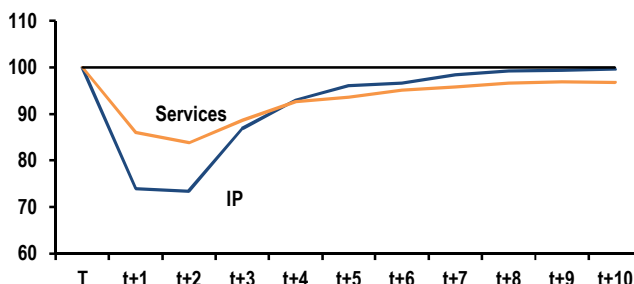
It is difficult to sustain austerity in a pandemic, particularly considering the damage to economic activity last year and to growth-sensitive revenues, with Mexico's growth the weakest in Latin America except for Argentina and Peru. While revenues faltered, programmable spending did increase to keep the staple AMLO projects afloat. The reason why a double-digit decline did not materialize last year was the welcome hefty contribution from external demand.

While manufacturing exports and the ripple effects from remittances prevented a deeper decline, domestic sources of growth retreated without major domestic stimulus and amid erratic policy signals that hurt investment badly. Indeed, industrial production recovered relatively fast but services suffered a deep blow that threatens to extend if the pandemic

intensifies again and/or the vaccination rollout fails to accelerate soon (Figure 4).

Figure 4: Mexico - IP and services GDP proxy

Index, March 2020 = 100



Source: J.P. Morgan with data from INEGI.

Tables turning in 2021

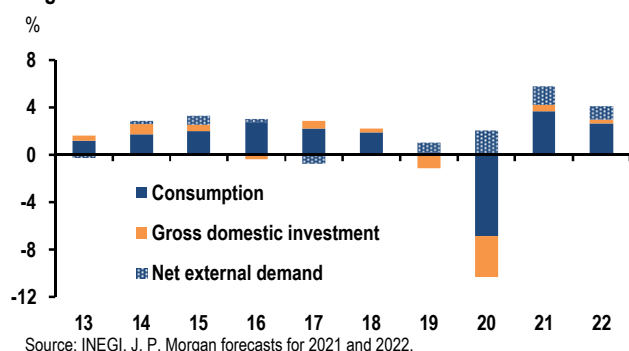
The COVID-19 pandemic continues to drive economic growth dynamics in Brazil. The numbers of the pandemic worsened significantly in 1Q, with ICUs reaching capacity by the end of March and beginning of April. This generated more drag on economic growth than expected and jeopardized the credibility of economic policy management. We look for GDP to fall at a 3.4% average ar in 1H followed by only a moderate recovery in 2H, as the space for policy stimulus has diminished, and fiscal and monetary tightening look inevitable.

We look for Brazil's GDP to rise 2.9% this year, outpacing only Ecuador and Uruguay in LatAm (Table 1). Tightening financial conditions and rising uncertainty, amid lower carryover, should also constrain 2022 economic performance. But, despite the sluggish economic performance, inflation should remain significantly above the target up to the end of the year due to rising input costs, a weaker BRL in the short term, and inflation inertia, forcing the BCB to frontload monetary tightening this year. Our central forecast is for at least another 275bp tightening this year, in addition to the 75bp already implemented, taking the SELIC to a 5.5% terminal rate by October. Poor economic performance, along with uncertainties regarding economic policy in the medium term, have reduced the interest of foreign investors, despite the beginning of policy normalization, and the BRL has depreciated more than 25% since the end of 2019, against a below-5% depreciation of the Mexican peso, largely reflecting more conservative policy actions during the early stages of the pandemic.

With respect to Mexico in 2021, AMLO's economic team is relying on the Biden administration's aggressive policy actions, and favoring AMLO's preferred projects, particularly ahead of the midterm elections on June 6. While it is debatable whether the Mexican authorities aimed to keep the public

finances in check or were unable to deal with the pandemic, the economy is emerging with more momentum than Brazil, particularly if the US continues to make progress with its impressive vaccination campaign. Tailwinds from a virtuous feedback loop between industrial activity and services in the US, reactivated by both emergency and infrastructure packages and the vaccination rollout, should benefit Mexico's services sector, including tourism, transportation, and logistics. Last week we revised full-year growth to 6.5% from 5.8% on the back of external tailwinds, even with some 1Q21 headwinds related to early lockdowns and supply disruptions on the back of weather-related issues in the US. But we now expect a sound rebound in 2Q21. The contribution from net exports proved to be essential to avoid a deeper contraction in 2020 and should fuel the recovery this year (Figure 5).

Figure 5: Mexico - Contribution to GDP



The combination of a deep recession last year and a fast recovery in external demand resulted in a rapid improvement in the current account, which registered a multi-year high in 2020 and will remain in surplus this year on our forecasts.

Both the combination of steady debt dynamics, and strengthening external accounts have improved the perception of the Mexican economy among investors, which in turn has reduced financing pressures on the sovereign, potentially allowing monetary policy to remain neutral in spite higher commodity prices that will drive inflation to 4.3% this year, and the gradual normalization of the services sector. Hence our call for rates on hold at 4% for the foreseeable future.

Table 1: GDP growth

%q/q, saar

Country/Region	21Q1	21Q2	21Q3	21Q4
Global	2.8	5.9	9.0	4.6
US	4.5	10.0	8.3	3.0
China	4.3	6.8	5.5	5.7
LatAm	1.3	-1.9	3.7	4.0
Brazil	-0.8	-6.0	3.0	4.0
Mexico*	2.0	6.6	3.8	3.5

Source: J.P. Morgan, April 23. *Profile updated on April 26.

Possibly the main points of convergence for Brazil and Mexico this year are upside risks to inflation, and the difficulties associated with taming the health crisis. But even the latter is starting to show some divergences.

The fact that both countries are likely to return to pre-pandemic GDP levels only in 2022 at best, with increasing medium-term growth concerns, suggests that more important than focusing on spending sprees or fiscal paralysis, a balanced approach to debt-management that prioritizes health management could have been better. True, there is no easy answer when dealing with a new pandemic and its variants, particularly as we continue to witness so many different trends in mortality rates and new cases across densely populated emerging markets.

Where to next?

While Brazil and Mexico are still near the top of the global ranks in terms of COVID-19 deaths and cases and the slow progress in vaccination (Figures 6 and 7), recent information on new cases suggests Mexico and Brazil are once again moving in opposite directions.

Figure 6: Total COVID-19-related deaths

Per million

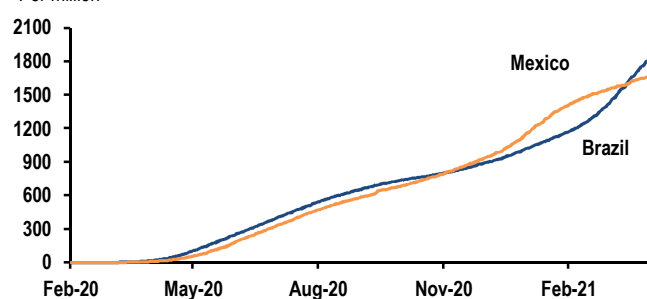
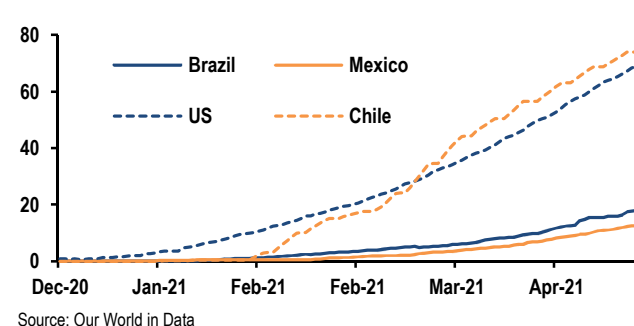


Figure 7: Total vaccinations

Per 100 inhabitants



Breaking the negative feedback loop between increases in new cases and tougher restrictions is essential to finding the way out of the pandemic, and it seems Mexico could be getting closer to solving the puzzle given its dependence on US

growth, which this time around is expected to yield positive results.

Mexico was able to keep lockdowns on non-essential activities relatively tight to relieve pressure on the health system, as essential activities (e.g., manufacturing and related activities) continue to be favored by strong external demand. As said, at the turn of the first quarter we witnessed a surge in new cases in Brazil, while Mexico moved in the opposite direction, but more recently numbers have started to improve in Brazil (Figures 8 and 9).

Figure 8: Brazil and Mexico Google Activity Index (GAI)

% since baseline, 7-day average

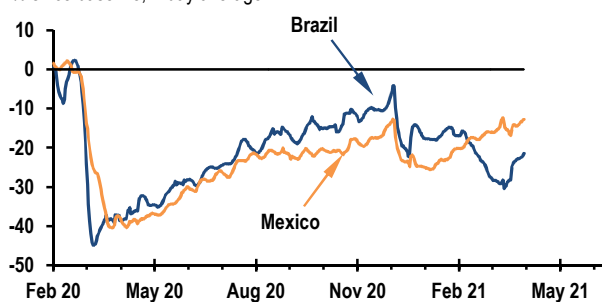
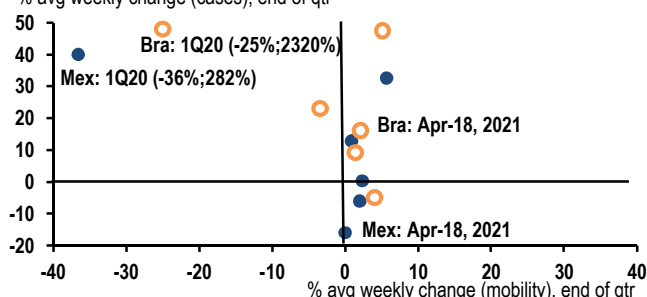


Figure 9: Mobility versus new cases at the end of each quarter

% avg weekly change (cases), end of qtr



The recent events that prompted the tightening of mobility restrictions in Brazil up to mid-April have started to partially reverse in the last week or so, while Mexico started to reopen non-essential sectors in some states and is transitioning toward broader re-opening.

While it is still too early to determine if reopening non-essential sectors in both countries at this stage is premature or not, the rate of vaccination in the US should also benefit Mexico over Brazil given their geographical location. Vaccinated US citizens are expected to resume traveling to Mexico in the summer, and an increasing number of Mexicans are crossing the northern border to get vaccinated. With the Mexican government sidelining private sector workers in essential activities (e.g., medical doctors) during the current vaccination

campaign, in favor of public health workers and teachers, travel of high-income private-sector Mexicans to the US has accelerated.

At any rate, vaccination in Mexico has gained speed in the last few weeks, which should also support the resumption of a number of non-essential activities. In the meantime, the borders of Brazil to the rest of the DM world remain closed, with very limited international flights and prolonged quarantine requirements.

While the vaccination curves of the two countries have been aligned (Figure 7), availability of vaccines continues to be an issue for Brazil, aggravated by the recent surge in cases in India, an important supplier of inputs.

Indeed, Brazil is now facing the dilemma of how to promptly remove policy (fiscal and monetary) stimulus to contain inflationary pressures and sustain credibility over economic policy management, at the risk of perpetuating the damage to the economy without entirely solving its own health crisis. Mexico's reliance on the US, on the other hand, prevented a double-digit contraction last year and is expected to support a relatively strong recovery this year provided vaccination continues to gain speed in the second half of the year, after mid-term elections on June 6. Still, external demand support continues to mask long-standing domestic paralysis that continues to drag down both domestic and foreign investment.

Considering that we are still sailing uncharted waters, it is still unclear how deeply hurt each country's economy will be once they are out of the pandemic, but as the wave retreats the damage will become more evident, particularly in terms of the labor market, business and household balance sheets, and potential growth. Yet, as the vaccination rollout continues to make progress, confidence could be restored gradually. While this would break the lingering vicious cycle between spikes in cases, lockdowns, and declining economic activity, an additional effort to boost vaccination is warranted, in our view, as policymakers are running out of options.

Economic Research Note

GCC countries need to diversify to fortify

- The presence of vast natural resources has brought both wealth and structural problems
- GCC economies are still much more dependent on hydrocarbon than data reflect
- Despite the introduction of business-friendly reforms, FDI inflows remain weak
- A segmented labor market hinders the development of a productive private sector

Owning vast hydrocarbon fields has been a mixed blessing for the GCC countries. On the one hand, they have created huge wealth for the current and future generations. These countries have been able to invest in their economies and people without incurring fiscal deficits or even if there were deficits these were covered very easily. The GCC currently have among the highest per capita GDP and have reached some of the highest ranks in human development indices not only in the EM but globally.

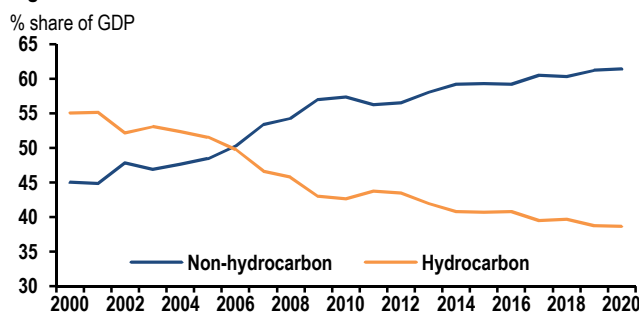
On the other hand, dependence on hydrocarbon production and the dominance of huge government enterprises has led to over-dependence on energy prices, an underdeveloped private sector, and low productivity. The hydrocarbon fields will get depleted—sooner in some countries like Bahrain and Oman, and later in others. Furthermore, global investment in energy efficiency and green energy sources stand out as key long-term risks to these economies. It has been reassuring to see policymakers acknowledge these risks and that structural reforms toward economic diversification are under way. A non-hydrocarbon private sector is flourishing in the region. However, the issue of economic diversification almost always gains a sense of urgency when oil prices drop and falls out of fashion when prices soar back. Hence, stronger and sustained commitment to structural change is warranted.

Domination of public sector companies

High hydrocarbon production predominantly by public companies and the need to distribute the hydrocarbon income to the population through the public sector created economies dominated by the public-sector and by hydrocarbon production. At the beginning of the millennium, hydrocarbon production comprised more than half of the GDP in GCC economies. True, there has been consistent economic diversification in recent years and the share of hydrocarbon production in regional GDP fell to 39% from 55% over the last 20 years (Figure 1). Although the starting point was different for indi-

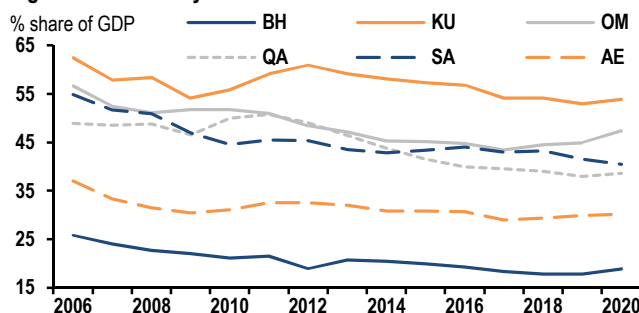
vidual countries, this trend was seen throughout the region (Figure 2).

Figure 1: Structure of the GCC economies



Source: Local Authorities, IIF, J.P. Morgan

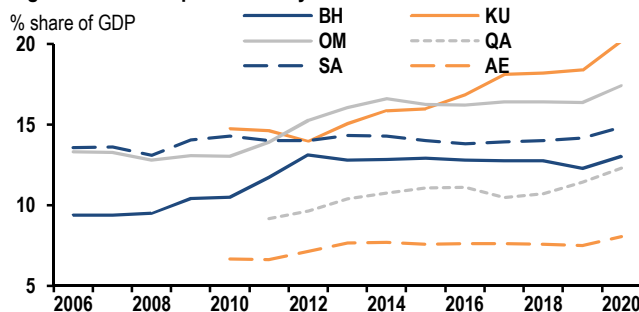
Figure 2: Share of hydrocarbon sector



Source: Local Authorities, J.P. Morgan

However, we should keep in mind that much of the region's other activity such as construction and infrastructure development is directly supported by revenues from oil and gas. This trend also has been driven at least in part by rising production in downstream sectors and heavy industries that use oil and gas as feedstock. Hence, GCC economies are still much more dependent on hydrocarbon than the data reflect. Real economic diversification requires producing goods and services that could compete with the rest of the world.

Figure 3: Share of public non-hydrocarbon sector



Source: Local Authorities, J.P. Morgan

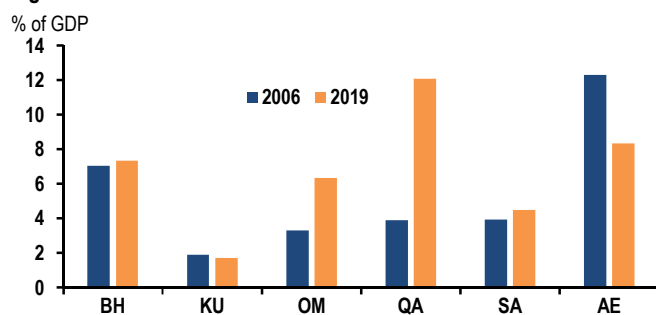
Importantly, while the share of hydrocarbon production has fallen, there has been a similar increase in the share of the

public non-hydrocarbon sector throughout the region (Figure 3). As a result, there has been no meaningful increase in the share of the private sector in recent years. State-owned enterprises played important roles in stimulating modernization, innovation, and economic growth in non-hydrocarbon industries. But, over time, they came to dominate their respective sectors. They erected bureaucratic barriers to entry, preventing smaller enterprises from growing and competing. As in most other EM countries, there are concerns that many government-funded giant projects being planned are in fact white elephants.

Productivity problems

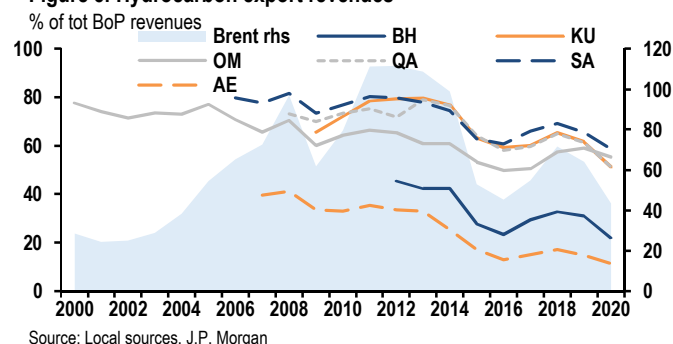
At least some of the private-sector activity that has flourished in recent years relies heavily on government-funded projects and consumption that ultimately is supported by oil/gas revenues. Much private-sector activity is run through public or quasi-public enterprises, relies on government contracts, is financed through public financial institutions, and is supported with government subsidies. Furthermore, rapid growth in government spending on infrastructure and wages has contributed to strong growth in low-value-added sectors like construction, trade, and retail. Except in Kuwait, the share of construction in GDP was already high and/or increased in recent years (Figure 4). This has provided incentives for economic activity to shift mostly to low-skilled sectors, contributing to declining labor and total factor productivity. Large infrastructure projects could exacerbate this crowding out of the tradables sector.

Figure 4: Construction sector



Source: Local sources, IIF, J.P. Morgan

Figure 5: Hydrocarbon export revenues



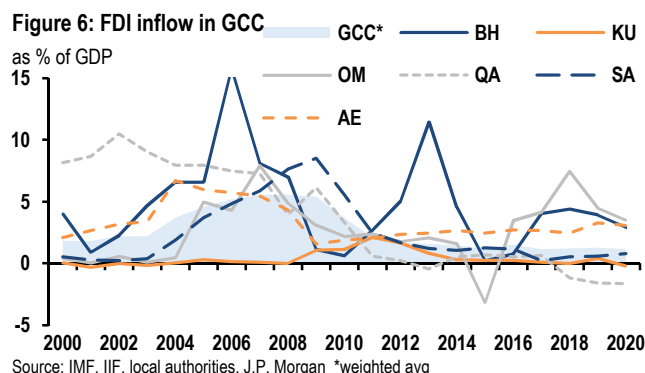
Source: Local sources, J.P. Morgan

The trend in the composition of exports resembles that in GDP. There has been a downward trend in the share of hydrocarbon exports in total balance-of-payments revenues, but this has mainly followed the weakening in global energy prices (Figure 5). As with the composition of GDP, this trend has been driven by rising export revenues from downstream sectors (like petrochemicals) that use oil and gas as feedstock. Export diversification, a key ingredient to sustainable export growth, has been more limited.

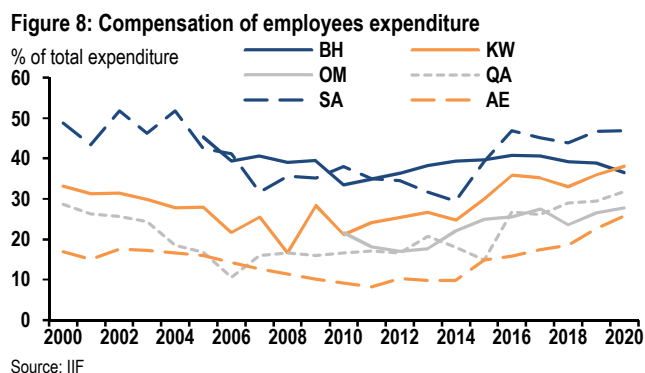
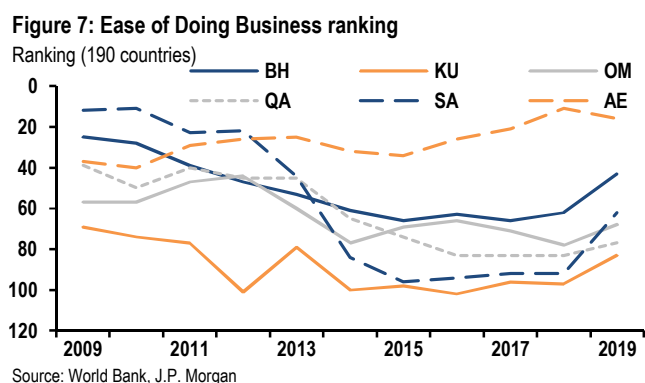
On a positive note, GCC countries do not suffer from the traditional Dutch disease problems that affect many commodity-producing countries via an overvalued real effective exchange rate. The first reason for this is the currency pegs. Except Kuwait (which has its currency pegged to a basket of currencies), all GCC countries have their currencies pegged to the US dollar, the very currency their main export items are quoted in. The second reason has been the ready availability of low-wage expatriate labor in the region, which has meant that high oil revenues and oil wealth have not pushed up wages in the private sector. The absence of the Dutch disease is reassuring and implies that the potential for sustained nonhydrocarbon export growth is there if the economic transformation is achieved.

FDI flows need to pick up

One key factor that would facilitate nonhydrocarbon private sector growth in high-productivity sectors would be foreign direct investment. This is an area where GCC countries lag. Foreign direct investment inflows to the region have actually decline and stabilized around 1% of GDP in recent years (Figure 6). This is substantially lower than the EM average. Furthermore, most of the FDI inflows originate from GCC countries. For example, in Bahrain, which incidentally is the second-largest FDI receiver in the region, about 70% of the inflows originate from other GCC countries (especially Kuwait and Saudi Arabia).



Such FDI weakness is interesting because GCC countries have made strides in investing in key areas such as education and infrastructure and in improving the business environment through a series of reforms. They all rank in the first 80 in the World Bank Ease of Doing Business index and their rankings have improved in recent years (Figure 7). Furthermore, political stability—one key constraint for FDI inflows to EM countries—is not an issue given strong dynasties in the region. We see three key factors preventing stronger inflows. First, despite a series of structural reforms, it is still difficult for an incoming firm with no local connections to enter and compete in the market. Second, there is no major problem with political stability, but policy stability is still a concern. Frequent changes in legislation on work permits and funds transfers, and unexpected intra-region political tensions that could impact the intra-regional flow of goods, services, capital, and labor are some of international investors' key concerns.



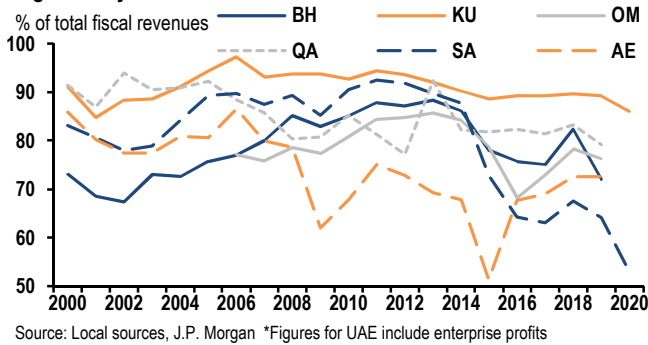
Segmented labor market

The third problem is the segmented structure of the labor market, which deserves closer attention. GCC countries pass along natural resource income to their citizens through different means and one of these is high-paying public sector jobs. For example, in Saudi Arabia the average monthly wage is 40% higher for a national working in the public sector compared to one working in the private sector. That is also the reason why the share of wage payments in budgetary expenditures is as high as 30%-50% in GCC countries and trending up in recent years (Figure 8). Although the fiscal cost is significant, the real distortion is the availability of high-paying public sector jobs that creates a strong disincentive for nationals to seek private sector employment or become entrepreneurs. The lack of high-paying jobs in the private sector means that young people have an incentive to get an education that is suited to employment in the public sector, while the lack of nationals with the skills needed for the private sector combined with an immigration system that may discourage high-skilled expatriate labor has left firms unable to produce higher-value-added tradable goods that can compete internationally.

Fiscal and financial diversification

To finish on a positive note, we focus on two topics where there has been some progress in diversification efforts in recent years. Hydrocarbon still accounts for a significant part of government revenues but this has started to drop as governments introduced the value-added tax system (Figure 9). This is clearest in Saudi Arabia, which first introduced a 5% VAT in 2018 and then hiked it to 15% last year. Increasing the taxes and fees on the non-oil sector reduces the reliance on oil revenues for financing spending. Such diversification could come at the expense of putting too much pressure on the newly flourishing non-hydrocarbon sectors and hence need to be done cautiously.

Figure 9: Hydrocarbon revenues in GCC



The second area where there has been progress in recent years is financial diversification, which implies the investment of government savings in a diversified portfolio of assets to finance future government consumption. This can help generate income flows that are independent of energy production/prices and hence can mitigate the economic volatility associated with reliance on commodity revenues. It has been encouraging to see governments increasingly saving the oil revenues overseas or in non-hydrocarbon-related investments.

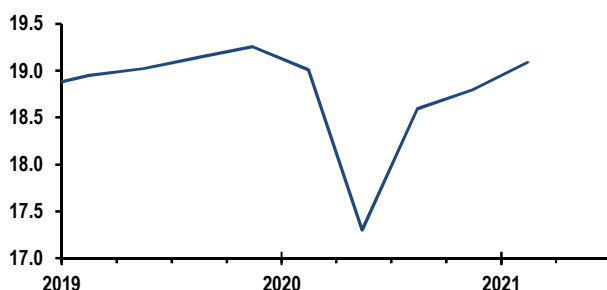
United States

- **Real GDP jumped 6.4% in 1Q and stage is set for even stronger growth in 2Q**
- **PCE inflation rates picked up in March, in part due to “base effects”**
- **FOMC continued to preach patience**
- **We forecast 1.0mn jobs added in April along with decline in u-rate to 5.8%**

Real GDP jumped 6.4% saar in the first quarter (Figure 1). The combination of the two recent fiscal stimulus packages (passed late in December and mid-March) and generally favorable virus-related developments associated with vaccine distribution enabled strong growth that quarter and we think the stage is set for even boomier growth in 2Q. Consumer spending picked up notably late in 1Q and the income surge associated with the American Rescue Plan allowed personal saving to jump even though spending also picked up. Furthermore, inventories fell sharply in 1Q as supply chain issues weighed on different types of production, and while it is unclear exactly when these will be resolved, we think inventories could lift growth meaningfully in the coming quarters. While we don't have much hard data for 2Q at this point, we now see upside risk to our 10.0% real GDP growth forecast for the quarter.

Figure 1: Real GDP

2012\$ tr, saar



Source: BEA, J.P. Morgan

The PCE inflation measures were also in focus this week and the March data showed solid monthly gains along with firming in year-ago rates that was in part associated with favorable “base effects.” We and many others have been anticipating the rise in annual inflation rates and we believe that they will moderate later this year once these base effects turn less favorable. Supply chain issues and other possible bottlenecks do raise the possibility that upcoming sequential inflation readings could be firm.

Like us, many on the FOMC have been anticipating strong growth early this year along with a pickup in inflation. With recent developments likely broadly in line with the FOMC's expectations, the Committee's messaging did not change much at this past week's April meeting. The statement language and Chair Powell's press conference did not give any clear signals about when the FOMC will eventually tighten policy; Powell continued to state that it would be “some time” before the substantial further progress test for tapering is achieved and that it was still too early to talk about talking about tapering.

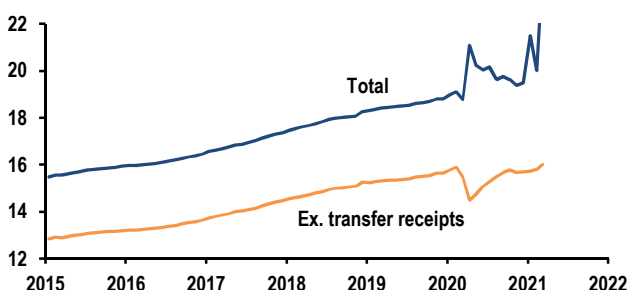
We expect the tone of the economic indicators to generally remain upbeat next week. Most importantly, we think non-farm employment surged by about 1.0mn in April while the unemployment rate declined from 6.0% to 5.8%. We also look for a pickup in auto sales between March and April and strength across many of the business surveys.

GDP keeps climbing back

Real GDP increased at a solid 6.4% annualized rate in 1Q, a little short of consensus expectations but above our estimate. This left real output last quarter 0.4% above its year-ago level and just 0.9% below its previous peak reached in 4Q19 (Figure 1). By expenditure category, by far the largest contributor to last quarter's growth was real consumer spending, which increased at a 10.7% clip. The double-barreled boost from the late December Response and Relief Act and the March American Rescue Plan helped real disposable personal income increase at a record 61.3% annualized rate last quarter, although income growth away from government transfers was much softer (Figure 2). And so even with the bump in consumer spending, the personal saving rate increased from 13.0% in 4Q20 to 21.0% in 1Q21.

Figure 2: Personal income

\$tr, saar



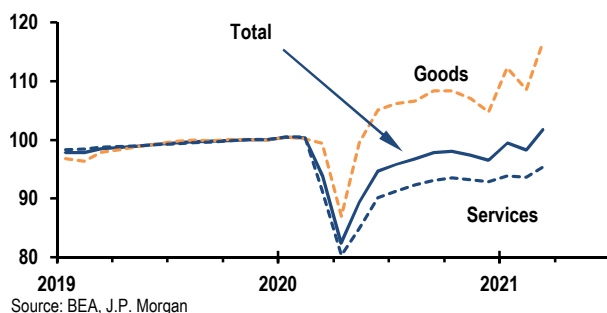
Source: BEA, J.P. Morgan

Business fixed investment spending increased at a 9.9% pace last quarter, more than retracing all of its prior decline. The composition of investment spending looked like the prior two quarters: strong spending on tech equipment and software, weak spending on structures. Government expenditures grew

up at a solid 6.3% rate, led by spending on vaccine distribution efforts. Net exports were a 0.9%-pt drag on the top-line number. Weaker inventory investment, particularly at vehicle dealers, subtracted another 2.6%-pts from the headline. The weak stock-building outcome should support growth in 2Q, as producers ramp up output to replenish depleted inventories. Moreover, real consumption jumped 3.6% in March, setting up a strong jumping-off point at the end of the first quarter that should ensure another boomy consumption outturn for 2Q (Figure 3). All in all, we see some upside risk to our estimate of 10.0% annualized current-quarter real GDP growth.

Figure 3: Real consumer spending

Index, 4Q19=100

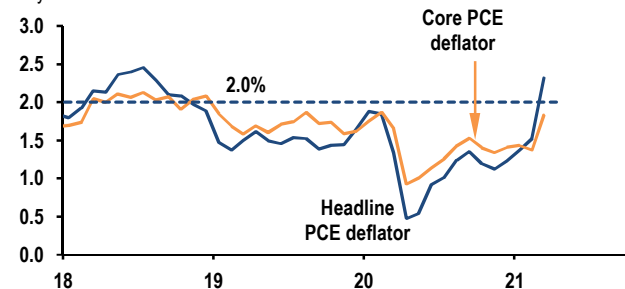


PCE inflation picks up

The main PCE price indexes showed firm month-on-month price increases for March and year-ago inflation rates moved up noticeably, in part due to base effects. The headline PCE price index jumped 0.5% in March, with the year-ago inflation rate picking up from 1.5% in February to 2.3%. The core PCE price index increased 0.36% in March, with its year-ago rate rising from 1.4% to 1.8% (Figure 4). The year-ago inflation rates likely will move higher in next month's release of April data with comparisons going up against the very weak inflation readings from April 2020, but base effects turn less favorable in subsequent months.

Figure 4: PCE price indexes

%oya



Fluctuations in base effects will be meaningful determinants of year-ago inflation rates in the coming months, but it will

also be important to monitor sequential inflation rates. We will be watching to see if supply chain issues, other bottlenecks, and strong demand associated with the normalization of activity after virus-related disruptions lift prices.

Labor market developments also could be important, and it looks like the labor market keeps recovering over time. Initial jobless claims filings have been trending lower since January and continuing claims filings also have moved down lately. The employment cost index also posted a solid quarterly gain in 1Q (0.9% saqr) although its year-ago rate (2.7%) was not much different from the figures reported in recent years. Inflation expectations also are being monitored, and some of the jump in the University of Michigan survey's median one-year-ahead inflation expectation was revised away between the preliminary and final April reports.

Powell stays patient

With the recent news on growth and inflation, the FOMC sounded a little more upbeat on the outlook after its April meeting. But it gave no signal that it was inching toward tapering. Whereas the mid-March FOMC statement noted that the public health crisis posed "considerable risks" to the outlook—a phrase in the statement since last April—the updated statement dialed that back a bit by dropping the word "considerable" and instead just noted that "risks to the economic outlook remain." While the statement sounded more upbeat about the outlook, the most notable development from Powell's prepared remarks was no change in the messaging about asset purchases: he continued to state that it would be "some time" before the substantial further progress test for tapering is achieved. If that left any doubt, the first question he fielded was whether it's time to talk about tapering and he answered: "No. It is not time yet." The apparent contrast between the more upbeat outlook and the unchanged signaling on asset purchases may be due to the outlook improving about in line with the Fed's expectations. In any event, the first time that the Committee can have any serious discussion of tapering is the June FOMC meeting. If, as Powell has stressed, they intend to let the public know "well in advance" of the decision to taper, that would seem to make a taper this calendar year somewhat hurried, and we continue to expect tapering to commence early next year.

There were a number of inflation-related questions in Powell's press conference. The chair downplayed near-term developments and noted that one-time price increases do not equate to inflation. He also judged supply bottlenecks to be transitory and didn't sound concerned about the recent move up in some measures of inflation expectations.

Data releases and forecasts

Mon **Markit manufacturing PMI**

May 3 Index, sa

9:45am

		Flash	Final
	Feb	Mar	Apr
Composite ¹	58.6	59.1	60.6
New orders (30%)	57.4	60.7	61.6
Output (25%)	57.8	55.6	57.2
Employment (20%)	56.3	54.5	55.7
Sup. del. (15%, inv.)	27.1	26.0	23.7
Stks of purch (10%)	47.2	50.1	52.3
New export orders	53.6	53.5	56.8
Backlogs of work	55.0	62.2	60.4
Output prices	60.6	69.1	68.1
Input prices	73.2	74.8	78.0
Stocks of finished goods	48.2	45.1	46.0
Quantity of purchases	53.7	56.4	59.6
ISM-weighted composite ²	58.3	59.0	60.6

1. Weights in parentheses

2. Attributes ISM-composite weights (equal weights) to corresponding PMI series

We look for the Markit manufacturing PMI's headline composite to be revised up from 60.6 to 60.8 between the flash and final April reports, showing a 1.7pt increase over the final March figure. Many manufacturing surveys increased between March and April and we look for additional firming over time as the drag from COVID-19 is reduced.

Mon **ISM manufacturing survey**

May 3 Sa

10:00am

	Jan	Feb	Mar	Apr
Overall index	58.7	60.8	64.7	<u>64.5</u>
Production	60.7	63.2	68.1	
New orders	61.1	64.8	68.0	
Inventories	50.8	49.7	50.8	
Employment	52.6	54.4	59.6	
Supplier deliveries	68.2	72.0	76.6	
Export orders	54.9	57.2	54.5	
Imports	56.8	56.1	56.7	
Prices	82.1	86.0	85.6	

We forecast that the ISM manufacturing survey's headline composite edged down 0.2pt to 64.5 in April. While several other manufacturing surveys firmed between March and April in separate data that already have been released, the ISM survey has been much stronger than these other indicators lately and we think the ISM survey data could be due to cool off somewhat.

Mon **Construction spending**

May 3 %m/m, sa

10:00am

	Dec	Jan	Feb	Mar
Nominal	2.1	1.2	-0.8	<u>0.9</u>
Private	2.7	1.5	-0.5	<u>0.5</u>
Residential	5.0	2.2	-0.2	<u>0.5</u>
Nonresidential	-0.8	0.4	-1.0	<u>0.6</u>
Public	0.2	0.4	-1.7	<u>2.1</u>

We estimate that nominal construction spending increased 0.9% in March. We think that the 0.8% drop in construction spending in February was related to severe winter weather during the month, and with more favora-

ble conditions in March, we look for construction activity to jump. We expect this down-up swing across February and March to be evident across the main subcategories within the construction report.

Mon **Motor vehicle sales**

May 3 Millions, saar

	Jan	Feb	Mar	Apr
Light trucks and autos	16.7	15.8	17.7	<u>18.0</u>
Imports	3.9	3.8	4.3	
Domestics	12.8	11.9	13.5	
Autos	2.7	2.4	2.8	
Light trucks	10.1	9.5	10.7	

We estimate April light vehicle sales at 18.0mn saar based on available industry guidance. The pace of auto sales appears to have remained strong in April (firming somewhat from March) despite limited inventory.

Tue **International trade**

May 4 \$billion, samr

8:30am

	Dec	Jan	Feb	Mar
Balance(BOP basis)	-67.0	-67.8	-71.1	<u>-74.1</u>
Services	17.2	17.4	16.9	<u>17.4</u>
Merchandise	-84.1	-85.2	-88.0	<u>-91.5</u>
Exports (%m/m)	3.4	1.1	-2.6	<u>6.7</u>
Imports (%m/m)	1.7	1.2	-0.7	<u>6.0</u>

We look for the nominal trade balance to widen from -\$71.1bn in February to -\$74.1bn in March. The advance trade report for the month already showed widening in the nominal goods deficit between these months with substantial increases in related exports (8.7%) and imports (6.8%). We think only a portion of these jumps in trade activity were driven by price increases, and we estimate that real goods exports jumped 6.8% in March while real goods imports increased 5.3%. With trade activity picking up on the goods side in March, we also think that services activity may have perked up that month, and we forecast that nominal services exports increased 1.9% while nominal services imports increased 1.5%.

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April 30, 2021

J.P.Morgan**Tue Factory goods report**

May 4 %m/m, sa, unless noted

10:00am

	Dec	Jan	Feb	Mar
New orders	1.6	2.7	-0.8	<u>1.8</u>
Shipments	2.1	1.8	-2.0	<u>2.8</u>
Inventories	0.3	0.2	0.8	<u>1.3</u>
Inventory/sales ratio	1.38	1.36	1.40	<u>1.38</u>

We estimate that new orders for factory goods increased 1.8% in March while related shipments jumped 2.8% and inventories rose 1.3%. The advance durable goods report already showed increases in the related readings on orders, shipments, and inventories between February and March, which likely in part reflected a pickup in activity following weather-related disruptions in February. We think that the nondurable goods data also will firm in March as the earlier disruptions fade and we believe that price increases will also boost the nominal figures between February and March. We forecast a 3.0% March jump for nondurable orders and shipments and a 1.9% increase for nondurable inventories.

Wed ADP employment

May 5 Change from month ago, sa

8:15am

	Jan	Feb	Mar	Apr
ADP	196	176	517	
BLS private payroll	122	558	780	

In last month's reports, the ADP data showed 517,000 jobs added in the private sector in March while the BLS data showed that 780,000 jobs were added. The March data continued the trend that we have seen throughout much of the recovery, with the first print of the change in the ADP undershooting the first print of the BLS data. But the magnitude of the misses has varied significantly from month to month and the ADP data have not always been softer than the BLS data.

Wed Markit services PMI

May 5 Index, sa

9:45am

	Feb	Mar	Flash Apr	Final Apr
Business activity	59.8	60.4	63.1	<u>63.3</u>
Incoming new business	57.7	58.7	63.2	
Employment	50.4	52.7	56.3	
Business expectations	66.3	72.7	74.2	
Input prices	70.1	72.7	71.4	
Prices charged	58.5	59.8	61.0	
Backlogs of work	52.5	50.2	52.8	

We believe the headline activity index for the Markit services PMI will be revised up from 63.1 to 63.3 between the flash and final April reports, with this updated reading 2.9pts above the final March figure. The flash April report already showed a notable recent pickup in activity, and with many other business surveys firming substantially between March and April, we think the updated PMI data could be even firmer than in the flash report.

Wed ISM services survey

May 5 Sa

10:00am

	Jan	Feb	Mar	Apr
Headline composite	58.7	55.2	63.7	<u>64.0</u>
Business activity	59.9	55.5	69.4	
New orders	61.8	51.9	67.2	
Employment	55.2	52.7	57.2	
Prices	64.2	71.8	74.0	

We estimate that the ISM services survey's headline composite increased 0.3pt to 64.0 in April. Many other business surveys show significant firming between March and April, but with so much pickup in the ISM data already reported through March, we expect only modest firming in April.

Thu Jobless claims

May 6 Thousands, sa

8:30am

	New claims (wr.)		Continuing claims		Insured
	Wkly	4-wk avg	Wkly	4-wk avg	Jobless, %
Feb 20	747	824	4383	4525	3.1
Feb 27	761	805	4157	4400	2.9
Mar 6	734	772	4123	4283	2.9
Mar 13'	765	752	3841	4126	2.7
Mar 20	658	730	3753	3969	2.6
Mar 27	729	722	3717	3859	2.6
Apr 3	742	724	3708	3755	2.7
Apr 10	586	679	3651	3707	2.6
Apr 17'	566	656	3660	3684	2.6
Apr 24	553	612			
May 1	<u>525</u>	<u>558</u>			

1. Payroll survey week

We forecast that initial jobless claims in regular state programs declined 28,000 to 525,000 during the week ending May 1. Claims have been trending lower in recent months and we look for additional declines ahead as the labor market keeps recovering.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

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Economic Research
United States

April 30, 2021

J.P.Morgan

Thu Productivity and costs

May 6 Nonfarm business sector, %q/q, saar, unless noted

	2Q20	3Q20	4Q20	1Q21
Productivity	11.1	4.2	-4.2	<u>4.1</u>
%oya	3.0	3.9	2.4	<u>3.7</u>
Output	-36.8	44.1	5.5	<u>8.4</u>
%oya	-11.1	-3.2	-2.6	<u>1.0</u>
Hourly compensation	24.3	-5.8	1.5	<u>4.1</u>
%oya	8.7	7.2	6.7	<u>5.5</u>
Unit labor costs	11.9	-9.6	6.0	<u>0.1</u>
%oya	5.6	3.1	4.2	<u>1.8</u>
Hours	-43.2	38.3	10.1	<u>4.2</u>
%oya	-13.6	-6.9	-4.9	<u>-2.6</u>

We estimate that nonfarm productivity increased 4.1% saar in 1Q, with strong growth in nonfarm output during the quarter expected to outpace solid growth in related hours. With the increase in hourly compensation looking very similar to the forecasted increase in productivity in 1Q, we look for little change in unit labor costs during the quarter, with a 0.1% saar move up.

Fri Labor market report

May 7 Sa

	Jan	Feb	Mar	Apr
Payroll employment				
(ch, m/m, 000s)	233	468	916	<u>1,000</u>
Private payrolls	122	558	780	<u>985</u>
Goods-producing	-7	-44	183	<u>75</u>
Construction	12	-56	110	<u>40</u>
Manufacturing	-18	18	53	<u>25</u>
Service-providing	240	512	733	<u>925</u>
Private service-providing	129	602	597	<u>910</u>
Wholesale trade	14	6	24	
Retail trade	18	28	22	
Professional services	90	78	66	
Temporary help	100	50	-1	
Education/health	-14	57	101	
Leisure and hospitality	-17	384	280	
Government	111	-90	136	<u>15</u>
Average weekly hours	35.0	34.6	34.9	<u>34.8</u>
Index, hrs worked (%m/m)	1.0	-0.8	1.5	<u>0.5</u>
Hourly earnings (%m/m)	0.0	0.3	-0.1	<u>0.2</u>
(%oya)	5.2	5.2	4.2	<u>-0.2</u>
Unemployment rate (%)	6.3	6.2	6.0	<u>5.8</u>
Participation rate (%)	61.4	61.4	61.5	

We forecast that nonfarm employment increased by about 1.0mn in April while the unemployment rate declined from 6.0% to 5.8%. Many economic indicators have been strong lately and it looks like the combination of vaccine distribution and recent fiscal stimulus packages has led to a period of boomy growth in many parts of the economy. While many economic indicators have pointed to significant recent improvement in the labor market, the degree of this improvement varies across measures as we discuss in this week's [Focus](#). Looking across these measures, we expect the BLS data to show strong April payroll growth, similar to, but somewhat firmer than, the 916,000 jobs reported added for March.

Like we saw in March, we expect much of the job growth in April to come from the services sector. Many parts of the service sector have been "reopening" lately while the goods sector has been hampered by supply chain issues. We think employment growth in the food service industry could be particularly robust in April, in part because of a recent surge in [related sales](#). For the main aggregates within the establishment survey, we forecast that the private service sector added about 910,000 jobs in April while the goods sector added around 75,000. We also look for another increase in government employment in April (15,000), but expect some moderation relative to the jump reported for March.

The average workweek has been noisy throughout the pandemic, most recently jumping from 34.6 to 34.9 hours between February and March. We think the increased hiring in the service sector should put some downward pressure on the workweek, and we look for it to tick down to 34.8 hours in April. With strong job growth and a shorter average workweek, we expect the aggregate hours index to increase 0.5% in April. The recent tightening in the labor market could be boosting average hourly earnings, although hiring in the lower-wage service sector could be weighing on the data. The monthly earnings data also have been noisy lately, and we look for a 0.2% increase in April after the weak 0.1% decline reported for March.

Like in the establishment survey, we expect the household survey to show strong job growth in April. Some of this job growth should come from people entering the labor market, and we expect a 0.1%-pt increase in the participation rate in April (to 61.6%) and a 0.2%-pt decline in the unemployment rate (to 5.8%). We also look for a 0.3%-pt move up in the employment-population ratio (to 58.1%).

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

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April 30, 2021

J.P.Morgan**Review of past week's data****Durable goods (Apr 26)**

%m/m, sa

	Jan	Feb	Mar	
New orders	3.6	-1.2	-0.9	-0.8 0.5
Ex transportation	1.7	-0.9	-0.3	-0.6 1.6
Nondef cap. gds ex air	0.7	-0.9	-0.8	-0.6 0.9
Shipments	1.8	-3.6		-0.9 2.5
Nondef cap. gds ex air	2.0	-1.1		-0.8 1.3
Inventories	-0.3	0.7		1.0

New orders for durable goods increased 0.5% in March while related shipments jumped 2.5%. The headline orders reading disappointed the consensus noticeably (2.3%) but came out only modestly below our forecast (0.8%). Several other key details of the report also came up short of consensus expectations. However, the most important data on shipments and inventories came out a little above our own expectations on net.

Many of the orders and shipments series show declines in February followed by increases in March, including the broad aggregate figures and the important core capital goods grouping. For the core capital goods data—that excludes defense and aircraft—orders rose 0.9% in March after declining 0.8% in February and shipments increased 1.3% after falling 1.1%. We think the recent volatility in the data is partly related to significant changes in the weather and it is hard to detect an underlying trend because of this noise. However, we do see solid growth in the main series on average in 1Q (including a 7.8% saar increase in CCG orders and a 10.3% saar jump in related shipments)/

Consumer confidence (Apr 27)

Sa

	Feb	Mar	Apr	
Conference Bd index	90.4	109.7	109.0	112.0 121.7
Present situation	89.6	110.0	110.1	139.6
Jobs plentiful	21.6	26.3	26.5	37.9
Jobs hard to get	22.4	18.5		13.2
Labor mkt diff	-0.8	-7.8	8.0	24.7
Expectations	90.9	109.6	108.3	109.8

The Conference Board consumer confidence index beat expectations in April, with its headline jumping from 109.0 to 121.7. The survey has shown a clear pickup in sentiment in recent months which likely is related to vaccine distribution and the related economic recovery. While sentiment is still down relative to pre-pandemic levels, much of the drop in sentiment associated with the pandemic has now been reversed following the April improvement, at least according to the Conference Board survey. Recent readings on the expectations subcomponent—which has been pretty volatile in recent years—actually have been above the related figures reported prior to the spread of COVID-19, while the survey's present situation index remains down noticeably relative to the pre-pandemic trend even with its recent firming.

Like the Conference Board survey's headline, its labor market differential also has posted strong gains lately, and it has made up much of the decline reported earlier in the pandemic. This measure had been reported in the 30s very early in 2020 before the pandemic really intensified, and in the latest report, it picked up from 8.0 in March to 24.7 in April.

International trade (adv.) (Apr 28)

\$bn, samr, unless noted

	Jan	Feb	Mar	
Balance of goods, Cen.	-84.4	-87.1	-91.7	-90.6
Exports (%samr)	1.7	-3.6	-3.6	8.7
Imports (%samr)	1.6	-1.0	-4.3	6.8

Business inventories (adv.) (Apr 28)

%m/m, sa, unless noted

	Jan	Feb	Mar	
Wholesale	1.4	-0.6	0.9	-0.9 1.4
Retail inventories	-0.3	0.2	-0.0	0.1 -1.1 -1.4
Ex autos	-0.2	0.3	-1.2	1.4 -0.7 0.6
Autos	-1.4	-0.2	-2.6	-2.8 -5.4 -6.1

The biggest surprise in the advance economic indicators report was related to wholesale inventories, which jumped 1.4% in March and showed a solid upward revision to the February change (to 0.9%). The 1.4% drop in retail inventories was much closer to our forecast (although a significant downside surprise relative to the consensus), and like we had anticipated was driven primarily by a plunge in inventories at motor vehicle and parts dealers. Away from inventories, the March trade data came out a little more favorably for GDP growth than we had anticipated, although the deficit did widen noticeably that month and was a downside surprise relative to the consensus forecast. With substantial jumps in both exports (8.7%) and imports (6.8%) in March, the nominal goods balance widened from -\$87.1bn to -\$90.6bn.

Gross domestic product (Apr 29)

%ch, q/q, saar, unless noted

	3Q20	4Q20	Adv 1Q21	
Real GDP	33.4	4.3	5.0	6.4
Final sales	25.9	2.9	6.8	9.2
Domestic final sales	29.8	4.4	7.8	9.8
Consumption	41.0	2.3	8.9	10.7
Equipment	68.2	25.4	13.9	16.7
Intellectual property	8.4	10.5	11.0	10.1
Nonres. structures	-17.4	-6.2	-7.8	-4.8
Residential investment	63.0	36.6	9.0	10.8
Government	-4.8	-0.8	-0.1	6.3
Exports	59.6	22.3	0.6	-1.1
Imports	93.1	29.8	8.0	5.7
Inventories (ch, \$bn)	-3.7	62.1	-17.4	-85.5
Net exports-pct.pt.contr.	-3.2	-1.5	-1.3	-0.9
Inventories-pct.pt.contr.	6.6	1.4	-1.7	-2.6
Core PCE price index	3.4	1.3	2.6	2.3
(%oya)	1.4	1.4	1.6	1.5
GDP chain price index	3.5	2.0	4.1	
(%oya)	1.1	1.3	1.9	

Real GDP increased at a solid 6.4% annual rate in 1Q, a little short of consensus expectations but above our estimate. This left real output last quarter 0.4% above its year-ago levels and just 0.9% below its previous peak reached in 19Q4. By expenditure category, by far the largest contributor to last quarter's growth was real consumer spending, which increased at a 10.7% rate. The double-barreled boost from the late December Response and Relief Act and the March American Rescue Plan helped real disposable personal income increase at a record 61.3% rate last quarter (real personal income excluding government transfers was basically flat). And so even with the bump in consumer spending, the personal saving rate increased from 13.0% in 20Q4 to 21.0% in 21Q1. Business

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

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April 30, 2021

J.P.Morgan

fixed investment spending increased at a 9.9% pace last quarter, more than retracing all of its prior decline. The composition of investment spending looked like the prior two quarters: strong spending on tech equipment and software, weak spending on structures. Government spending was up at a solid 6.3% rate, led by spending on vaccine distribution efforts. Net exports were a 0.9%-point drag on the top-line number. Weaker inventory investment, particularly at vehicle dealers, subtracted another 2.6%-points from the headline. The weak stock-building outcome should support growth in 2Q, as producers ramp up output to replenish depleted inventories. Moreover, the strong jumping-off point of March real consumption should ensure another boomy consumption outturn for 2Q. All in all, we see some upside risk to our estimate of 10.0% annualized current quarter real GDP growth.

Consumer spending on durable goods increased at a blistering 41.4% rate, led by spending on vehicles and recreational goods. Service spending was up at a more moderate 4.6% pace, led by spending at restaurants, hotels, and casinos. Real residential investment spending increased at a 10.8% rate. Nominal residential investment spending grew at more than twice that pace, but prices were up at an 11.4% rate. In addition to the vaccination effort, the boost in federal spending also received a significant lift from bank processing of PPP loans on behalf of the federal government. Government transfers to persons last quarter were \$6.0 trillion at an annual rate, which was even greater than the CARES Act-supported 20Q2. While unemployment insurance payments were somewhat less last quarter than in 20Q2, stimulus checks were paid out at a \$1.9 trillion rate, almost double the 20Q2 pace.

Pending home sales (Apr 29)

Sa, unless noted

	Jan	Feb	Mar	
Total (mn, ar)	123.4	110.3	109.2	113.1 111.3
%ch m/m	-2.4	-10.6	-11.5	-2.5 1.9
%oya (nsa)	8.8	-2.7	-3.8	-26.2 25.3

The pending home sales index increased 1.9% in March, disappointing expectations somewhat. This increase reversed only some of the 11.5% drop in sales reported for February that was likely related in part to severe winter weather that month. And apart from some recent volatility associated with the weather, it looks like the trend in pending home sales has cooled off noticeably lately following a boomy period late in 2020 and early in 2021.

Personal income (Apr 30)

%m/m, sa, unless noted

	Jan	Feb	Mar	
Personal income	40.4	10.3	-7.4	-7.0 21.1
Wages & salaries	-0.7	0.8	0.0	-1.4 1.1
Consumption	3.4	-1.0	-3.2	3.2 4.2
Real consumption	-3.0	3.1	-1.2	-2.6 3.6
PCE price index	0.3	0.2	-0.6	0.6 0.5
Core	0.25	0.20	0.09	0.41 0.36
Mkt-Based Core	0.2	0.2	0.3	0.3
Core (%oya)	-4.5	1.4	1.4	-1.9 1.8
Mkt-Based Core	1.4	1.4	1.8	1.8
Saving rate	49.8	20.0	43.6	13.9 27.7 27.6

The March personal income and spending report showed a surge in income that was tied mainly to transfer payments associated with the American Rescue Plan which helped fuel strong spending growth while also boosting household saving.

The main PCE price indexes showed firm price increases for the month of March and year-ago inflation rates moved up noticeably, in part due to "base effects."

Getting into some of the numbers, personal income jumped 21.2% in March. The increase in wages and salaries during the month was solid (1.1%), but much of the broader income gain came from stimulus check issuance associated with the ARP. Excluding these economic impact payments, total income increased 1.3% in March.

Real consumer spending, meanwhile, jumped 3.6% in March, the strongest monthly gain since the very early stages of the recovery. Even with this strong increase in spending, the saving rate surged from 13.9% in February to 27.6% in March. The solid increase in spending at the end of 1Q along with the recent jump in saving look favorable as we think about 2Q consumption growth, which likely will be even stronger than the boomy 10.7% saar gain reported for the first quarter.

The headline PCE price index increased 0.5% in March, with the year-ago inflation rate picking up from 1.5% in February to 2.3%. The core PCE price index jumped 0.36% in March, with its year-ago rate rising from 1.4% to 1.8%. The year-ago inflation rates likely will move higher in next month's release of April data with comparisons going up against the very weak inflation readings from April 2020, but "base effects" turn less favorable in subsequent months.

Employment cost index (Apr 30)

	3Q20	4Q20	1Q21	
Total(%q/q, sa)	0.5	0.7	0.8	0.9
Wages and salaries	0.4	0.5	0.9	1.0
Benefits	0.6	0.6	0.6	0.6
Total(%oya, nsa)	2.4	2.5	2.6	2.6
Wages and salaries	2.5	2.6	2.6	2.7
Benefits	2.3	2.3	2.5	2.5

The employment cost index (ECI) increased 0.9% in 1Q, with the index up 2.6% oya. This fixed-weight measure is not impacted by compositional changes in employment that have helped boost the BLS's separate average hourly earnings data, and recent growth in the ECI has been much more modest than recent growth in average hourly earnings.

Consumer sentiment (Apr 30)

	Mar	Pre Apr	Fin Apr	
Univ. of Mich. Index	84.9	86.5	87.0	88.3
Current conditions	93.0	97.2		97.2
Expectations	79.7	79.7		82.7
Inflation expectations				
Short term	3.1	3.7		3.4
Long term	2.8	2.7		2.7

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

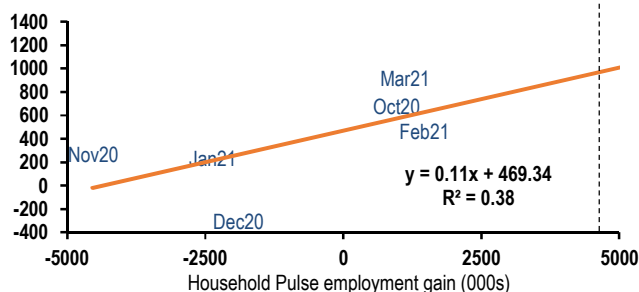
Focus: Job boom has limits

Some market participants reportedly expect the BLS's establishment survey to show extremely strong April employment growth, building on the 916,000 jobs added in March. Some indicators do point to a strong April jobs reading, and some market participants appear open to the possibility that several million jobs were added. While it is not totally implausible, we think that job growth of several million is unlikely. We think that the data will be less eye-popping, but still strong, with about 1mn jobs added in April. We review some of the recent signals that inform our forecast.

The Census Bureau's Household Pulse Survey (HPS) asks respondents about their employment status and shows that about 4.7mn jobs were added in just one week following the BLS's mid-March reference week (before the HPS data were temporarily suspended as the survey transitions into a new phase). Changes in employment in the HPS have not tracked changes in employment in the BLS's establishment survey particularly well in the limited available history, although they are positively correlated. Using the regression line shown in Figure 1, the 4.7mn job gain from the HPS would predict about 1 million jobs added in the establishment survey in April.

Figure 1: Payrolls and Census Household Pulse

Change in nonfarm employment (000s, sa)

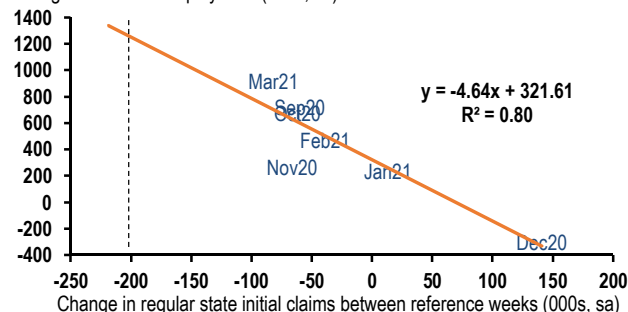


Source: BLS, Census Bureau, J.P. Morgan. Vertical line is April value.

The reliability of the jobless claims data has come into question throughout the pandemic as fraud, reporting issues, and aspirational filings have impacted the data in addition to changes in underlying labor market conditions. Changes in initial claims filings have not always given reliable signals about the establishment survey's employment changes, particularly early in the pandemic, but the relationship between the two series has tightened since the middle of last year. Using the relationship shown in Figure 2, the 82,000 drop in filings between mid-February and mid-March signaled March job growth of around 700,000, not too far from the BLS's reported change. The more noticeable drop of about 200,000 claims between mid-March and mid-April points to job growth of around 1.2 million in April.

Figure 2: Payrolls and initial jobless claims

Change in nonfarm employment (000s, sa)

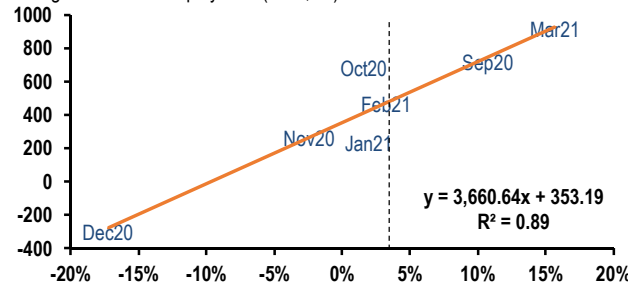


Source: Department of Labor, BLS, J.P. Morgan. Vertical line is April value.

We have also used a variety of high frequency "alt-data" to predict job growth throughout the pandemic. Some of these measures have cooled lately, pointing to a step down in job growth between March and April. OpenTable diners, for example, have had a strong relationship with payroll employment in recent months (Figure 3). The muted increase in diners between the March and April reference weeks predicts an April gain of just 490,000 jobs. The Google measure of mobility at transit stations has also done reasonably well in predicting payrolls lately (Figure 4); it predicts a gain of 710,000 jobs. Altogether, our [job tracker based on the alt data](#) predicts a gain of 630,000 jobs.

Figure 3: Payrolls and OpenTable diners

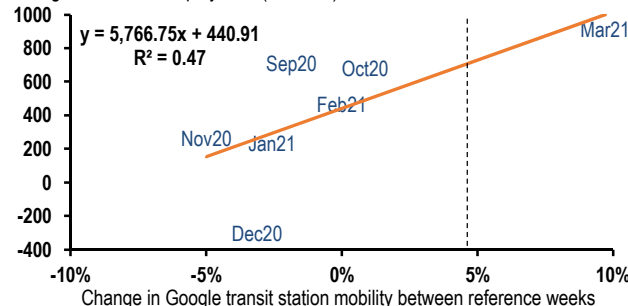
Change in nonfarm employment (000s, sa)



Source: Department of Labor, BLS, J.P. Morgan. Vertical line is April value.

Figure 4: Payrolls and Google transit station mobility

Change in nonfarm employment (000s, sa)



Source: Department of Labor, BLS, J.P. Morgan. Vertical line is April value.

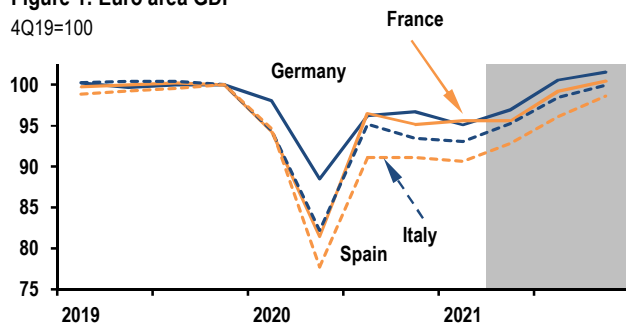
Euro area

- Euro area GDP declined 2.5% ar in 1Q21, with down-side surprises in Germany and France
- Restrictions and temporary factors weighed on GDP in 1Q21 but we expect a powerful rebound at midyear...
- ...as reopening starts in earnest in May and gathers traction over time with vaccine coverage rising
- Business and consumer sentiment soared in April, ahead of the reopening
- In a puzzling print for April core inflation declined much less than expected

This week, the first estimate showed that Euro area GDP contracted 2.5%q/q, ar in 1Q21, compared to our forecast for a 1% decline. The surprise is small by the standards of the COVID-19 crisis and is mainly due to Germany and France, while growth in Italy and Spain was squarely in line with our expectations. There are no details at the Euro area level, but our sense is that the surprise largely reflects: (i) temporary factors including drags from the German VAT, weather effects on construction, semiconductor shortages in manufacturing output, and Brexit disruptions; and (ii) the impact of restrictions on the directly affected sectors (notably, hospitality and leisure), which is difficult to track given the lack of high-frequency data. Activity in the Euro area in 1Q21 stood 5.5%-pts below the pre-pandemic level, although with significant cross-country differences (Figure 1).

Figure 1: Euro area GDP

4Q19=100



Source: Eurostat, J.P. Morgan forecast

Looking ahead, any lifting of restrictions is likely to trigger a mechanical bounce in directly affected sectors, with a large impact on GDP outturns as those sectors move from (near) shutdown to gradual reopening. A number of Euro area countries have already lifted restrictions or are about to do so, while Germany's emergency brake framework will ease some restrictions automatically as infections fall. For this, it is important to note that infection rates seem to have peaked and that the pace of vaccinations has stepped up sharply every-

where in the region, with the number of jobs administered rising above 32% of the population in the whole EU. We continue to expect that the reopening will start in earnest in May—albeit with possible cross-country variation—and then gather traction as the vaccination campaign advances.

This week, Italy lifted restrictions in a material way, with a broad reopening of hospitality and leisure, although still subject to some constraints like a 10pm curfew. According to their phased approach, the Italian authorities will review the existing regime in mid-May in light of the virus evolution, and proceed to progressive loosening if conditions allow. Since Italy stepped up restrictions in the face of the third COVID-19 wave already in early March, before Germany and France did so, we expect that this first-in-first-out pattern will prove a reliable guide for developments elsewhere in the region.

Table 1: Euro area GDP forecasts

%q/q, ar and %oya, "old" refers to forecast last Friday

	4Q20	1Q21	2Q21	3Q21	4Q21	2020	2021
New	-4.0	-2.5	6.5	14.5	5.5	-6.7	4.9
Old	-4.0	-1.0	6.0	14.0	5.5	-6.8	5.1

Source: J.P. Morgan estimates. Shaded area denotes forecasts

Production and sentiment surveys have already increased significantly in March and especially in April, despite still fairly tight restrictions, pointing to a large rebound in activity during 2Q21, also on the back of the fading of the temporary drags mentioned above. As a result, while this week's GDP surprise implies a modestly lower starting point at the end of 1Q21, we are inclined to raise our 2Q21 and 3Q21 growth forecasts for Euro area GDP by 0.5%-pt each, to 6.5%q/q, ar and 14.5%, respectively (Table 1). According to our forecasts, GDP is set to rise marginally above the 4Q19 level in 4Q.

Separately, Eurostat released the March unemployment rate data. The Euro area unemployment rate edged down 0.1%-pt to 8.1% and the January-February prints were both revised down a tenth to 8.2%. The rise in the unemployment rate since the virus outbreak has been modest (1%-pt) due to powerful short-time work subsidies at play.

Economic sentiment soared in April ahead of reopening

After a very solid PMI print last week, the EC sentiment survey also sent a very encouraging signal on activity this week. The survey increased 9.4pts to 110.3 in April, after a similar cumulative gain in the prior two months. The survey thus stands well above its pre-virus level (103.6 on average in January-February 2020) and is on par with readings last seen in 2H18. Looking at the details, the April gain was broad-based. The rise in services (+11.7pts to 2.1%) and retail confidence

(+9.1pts to -3.1%) was particularly striking as restrictions that restrain these sectors remained tight in some countries. The rise in manufacturing (8.6pts to 10.7%) was also very strong even though it was from an already high level. Significant improvements were also seen in the construction sector (+5.2pts to 2.9%) and at the consumer level (+2.7pts to -8.1%). But there is still quite a gap between the manufacturing sector, where activity now stands well above its pre-virus level, and the other sectors, where it remains below pre-virus levels.

At the country level, the April rise was broad-based, with Germany up 5.7pts to 109.4, France up 8.5pts to 104.7, Italy up 5.3pts to 104.8, and Spain up 9.1pts to 106.0. Separately, the quarterly survey marks capacity utilization back at its pre-virus level in the manufacturing sector but still well below it in services. Also, the survey suggests that limited availability of equipment has constrained production of late, which bodes well for a capex pickup ahead.

Germany: IFO also sends a positive message for 2Q21

Echoing last week's flash PMI, the German IFO remained strong in April. The main business climate index edged up 0.2pt to 96.8, reflecting an increase in current conditions (+1pt to 94.1) and a drop in expectations (-0.8pt to 99.5). However, the expectations index simply consolidated a near-8pt increase since January and comes in the context of rising COVID-19 infections and tighter restrictions (due to the automatic application of the emergency brake at the municipality level). Linking the PMI and IFO to quarterly growth outcomes remains hard, but the qualitative message is positive.

At the sector level, manufacturing and wholesale trade marked improvements in April, while retail was mixed and conditions in construction and other services deteriorated. The full details are not yet available, but the press release mentioned a few of them. First, capacity utilization in manufacturing rose 4.3pts to 86.2, a two-year high and above the long-run average (since 1991). Second, the share of manufacturers citing shortages of inputs rose to the highest level since 1991. A significant share of construction companies also reported materials shortages. Third, in the broader services sector, weakness remains most pronounced in hospitality and tourism, which is not a surprise, but does suggest that conditions are better in areas not directly affected by restrictions.

Core inflation down only a tick in April

Euro area headline inflation rose 0.3%-pt to 1.6%oya (J.P. Morgan 1.3%) in the flash April print, driven by a 6%-pts increase in energy price inflation to 10.3%oya. Food price inflation dropped 0.4%-pt to 0.7% and core inflation declined

only 0.17%-pt to 0.77%. We expected a much steeper fall in core inflation to 0.51%oya although we acknowledged significant uncertainty and some upside risk around that forecast. Our view was to a large extent driven by a large drag impact from weight changes in the HICP basket (0.3%-pt on core inflation according to our calculation).

The April flash core inflation print core is puzzling. Assuming we are correct in our assumption on the weight change drag (we take some comfort that the Bundesbank had reached the same conclusion), the modest decline in the core inflation outcome is a large upside surprise. Looking at the details, core goods price inflation (+0.2%-pt to 0.5%oya) was two-tenths higher than we assumed and services price inflation (-0.4%-pt to 0.9%oya) came in 0.3%-pt higher than we thought. Unfortunately, no further details are available and information for each item in the core basket will only be available mid-May. Some items may have been distorted as seen in the past around Easter. The fact that some prices had to be imputed by statistical offices (due to restrictions, including the French lockdown) could also have generated some noise. It is notable that French core inflation rose two-tenths to 1.2%oya, while it declined in the other countries for which information is available (-0.4%-pt to 0.3%oya in Italy and -0.4%-pt to 1.4%oya in the Netherlands among the main economies of the region).

There are two other factors that could account for the upward inflation surprise beyond noise such as Easter or data collection issues. Regarding core goods price inflation, some surveys have already signaled a rise in input and output prices that echoes supply-side disruptions. While the passthrough to consumer prices is not systematic, the pressure this time could have reached the consumer. Regarding services price inflation, we discussed the possibility of speed effects in the past. Our analysis suggested that speed effects are hard to find empirically, but we should be open-minded as the expected pickup in activity in the coming months is very strong by historical standards. But for now, restrictions are still tight in many countries and the country-level data are not consistent with a pattern where reopening triggers a sharp rise in core inflation. For instance, there was some reopening in Italy where core inflation declined whereas France tightened restrictions and core inflation rose.

The details in mid-May will be important. For now, we assume that this week's upside surprise is genuine, which lifts our core profile for the rest of the year. The weight change distortion will still be an important driver for core: a drag through July that will then fade before year-end. The temporary German VAT cut in 2H20 will also create a base effect this year (i.e., a 0.4%-pt lift in 2H21). Overall, we expect core inflation to bottom at 0.2%oya in July before rebounding to 1.4%oya in 4Q21.

Data releases and forecasts

Week of May 3 – 7

Output and surveys

Mon	Purchasing managers index final (manufacturing)				
May 3		Jan	Feb	Mar	Apr
10:00am	Euro area	54.8	57.9	62.5	<u>63.3</u>
9:55am	Germany	57.1	60.7	66.6	<u>66.4</u>
9:50am	France	51.6	56.1	59.3	<u>59.2</u>
9:45am	Italy	55.1	56.9	59.8	
9:15am	Spain	49.3	52.9	56.9	

Wed	Purchasing managers index final (services)				
May 5		Jan	Feb	Mar	Apr
10:00am	Euro area	45.4	45.7	49.6	<u>50.3</u>
9:55am	Germany	46.7	45.7	51.5	<u>50.1</u>
9:50am	France	47.3	45.6	48.2	<u>50.4</u>
9:45am	Italy	44.7	48.8	48.6	
9:15am	Spain	41.7	43.1	48.1	

Wed	Purchasing managers index final (composite)				
May 5		Jan	Feb	Mar	Apr
10:00am	Euro area	47.8	48.8	53.2	<u>53.7</u>
9:55am	Germany	50.8	51.1	57.3	<u>56.0</u>
9:50am	France	47.7	47.0	50.0	<u>51.7</u>
9:45am	Italy	47.2	51.4	51.9	
9:15am	Spain	43.2	45.1	50.1	

The Euro area composite output PMI was up 0.5pt to 53.7 in April according to the flash release. Even where restrictions were tightened (Germany and France), the composite output PMI sends an encouraging signal. The German PMI came down but remained at a high level and the French PMI increased to its highest level since July 2020 despite a new lockdown, overall signaling learning effects on the production side while stringent restrictions are in place. Outside the core countries, predominantly in Italy and Spain, restrictions were eased to some extent and the composite output PMI index was up 1.6pts to 53.2.

Industrial production

		Dec	Jan	Feb	Mar
Fri	Germany				
May 7	Industry incl constr (%m/m, sa)	1.8	-2.0	-1.6	<u>3.0</u>
8:00am	%oya, sa	0.8	-3.9	-6.1	
	Industry ex constr (%m/m, sa)	1.2	-0.2	-1.8	<u>2.0</u>
	Manufacturing (%m/m, sa)	1.4	-0.4	-1.8	<u>2.2</u>
	Construction (%m/m, sa)	5.4	-10.5	-1.3	<u>5.0</u>
	Energy (%m/m, sa)	-1.2	1.7	-0.2	<u>0.0</u>

German IP fell sharply in January and February. Weather disruptions likely hindered construction, which was also hit by payback from the VAT increase. Manufacturing was also impacted by weak car production, which may relate to shortages of semiconductors. It is unclear how long this drag will persist, but the business surveys do point to a solid underlying trend in production. As a result, we have penciled in a noticeable rebound in March.

		Dec	Jan	Feb	Mar
Fri	France				
May 7	Ind production (%m/m, sa)	-0.6	3.2	-4.7	<u>0.0</u>
8:45am	%oya, sa	-3.2	-0.2	-6.6	
	Manuf prod (%m/m, sa)	-1.3	3.3	-4.6	

French IP has been very volatile of late. In February, the decline followed a strong gain in January. The 1Q GDP release signaled that IP likely remained stable in March. However, the signal from business surveys has been very positive of late and we expect a significant IP increase in 2Q.

Manufacturing orders

		Dec	Jan	Feb	Mar
Thu	Germany				
May 6	Volumes, sa				
8:00am	Total (%m/m)	-1.9	0.8	1.2	<u>-0.5</u>
	%oya	6.8	1.3	5.8	
	Total ex. bulk orders (%m/m)	-1.5	1.7	1.5	<u>-0.5</u>
	%oya	6.1	4.5	6.6	
	Domestic (%m/m)	-0.4	-2.9	4.0	
	%oya	5.1	0.9	5.0	
	Foreign (%m/m)	-2.8	3.2	-0.5	
	%oya	8.1	1.6	6.2	

German industrial orders have been very strong recently, with the February level 4% above the pre-pandemic level whereas IP was still 5% below it. This gap likely reflects weakness in IP, which may relate to shortages of semi-conductors. Regarding orders, the signal from the business surveys remains very strong and therefore we do not expect much payback in March.

Demand and labor markets

Retail sales

		Dec	Jan	Feb	Mar
Thu	Euro area				
May 6	Total sales, volumes				
11:00am	%m/m, sa	2.0	-5.2	3.0	<u>2.4</u>
	%oya, working-day adj.	1.2	-5.2	-2.9	

COVID-19 restrictions remain tight many countries. In March, we expect a significant rebound in retail sales. This increase will be largely driven by Germany where many retail shops were allowed to reopen. Retail spending should then also increase sharply in countries where restrictions are eased beyond April.

		Nov	Dec	Jan	Feb
Mon	Germany				
May 3	Sales ex. autos and petroleum, volumes, sa				
8:00am	%m/m	-8.0	-6.2	2.7	<u>6.0</u>
	%oya	1.9	-5.2	-3.0	

German retail sales rose 2.7%/m in February, reversing only some of the weakness in December and January. Many retail shops were allowed to re-open in March, although not in all parts of Germany. This likely helped produce a partial rebound in March.

External trade and payments

Foreign trade

		Dec	Jan	Feb	Mar
Fri	Germany				
May 7	€ bn, values, sa				
8:00am	Trade balance	16.4	21.3	19.2	
	year earlier	19.0	18.2	21.7	
	Exports	107.3	109.0	110.0	
	%m/m	0.3	1.6	1.0	
	Imports	90.9	87.7	90.9	
	%m/m	-0.1	-3.5	3.6	

Italy (flash estimate)

	3Q20	4Q20	1Q21
%q/q, sa	45.9 5.8	-1.9 1.8	-0.4
%q/q, saar	80.3 9.8	-7.5 7.2	-1.5 -1.6
%oya	-5.2	-6.6	-1.4

Spain (flash estimate)

	3Q20	4Q20	1Q21
%q/q, sa	17.0	0.0	-0.5
%q/q, saar	87.7	0.1	-2.0 -2.1
%oya	-8.6	-8.9	-4.3

See Essay for details.

Inflation

Producer prices

		Dec	Jan	Feb	Mar
Wed	Euro area				
May 5	%m/m, nsa	0.9	1.7	0.5	
11:00am	%oya, nsa	-1.1	0.4	1.5	

European Commission survey

	Feb	Mar	Apr
Euro area			
% balance of responses, sa			
Economic confidence	93.4	100.9	102.0 110.3
Industrial confidence	-3.2	2.0 2.1	10.7
Construction confidence	-7.5	-2.7 -2.3	2.9
Retail confidence	-19.1	-12.2	-3.1
Service confidence	-17.0	-9.3 -9.6	2.1
Consumer confidence	-14.8	-10.8	-8.1

See Essay for details.

Review of past week's data

Output and surveys

Real GDP

	3Q20	4Q20	1Q21
Euro area (flash estimate)			
%q/q, sa	12.5	-0.7	-0.6
%q/q, saar	60.3	-2.7	-1.0 -2.5
%oya	-4.1	-4.9	-1.8

	3Q20	4Q20	1Q21
Germany (flash estimate)			
%q/q, sa	8.5 8.7	0.3 0.5	-1.0 -1.7
%q/q, saar	38.6 39.6	4.4 2.2	-4.0 -6.6
%oya	-4.0 -3.8	-3.6 -3.3	-3.0

See Euro area essay for details.

	3Q20	4Q20	1Q21
France (1st estimate)			
%q/q, sa	18.5	-1.4	0.4
%q/q, saar	96.9 97.4	-5.7 -5.4	4.0 1.8
%oya	-3.7	-4.9 -4.8	1.5

GDP components (%q/q, saar):

	3Q20	4Q20	1Q21
Private consumption	98.7 99.1	-20.7 -21.5	1.7
Government consumption	72.4 73.0	-1.2 -0.6	1.9
Fixed investment	136.9 135.8	4.6 5.1	9.2
Exports	122.5 124.9	25.3 26.5	-6.0
Imports	83.5 80.8	7.5 6.9	-0.6

Contribution to GDP growth (%q/q, saar):

	3Q20	4Q20	1Q21
Domestic final sales	103.7 103.9	-11.2 -11.5	3.6
Inventories	-6.8 -7.4	1.7	-0.1
Net trade	2.9 3.8	4.3 4.8	-1.7

National business surveys

	Feb	Mar	Apr
German IFO survey			
2015=100, sa			
Business climate	92.7 92.8	96.6	96.6 96.8
Business situation	90.6 90.7	93.0 93.1	93.0 94.1
Business expectations	95.0 94.9	100.4 100.3	100.4 99.5

See Essay for details.

Italy (ISAE survey)

	Feb	Mar	Apr
2000=100, sa			
Producer confidence	99.5 100.0	101.2 101.9	105.4

Belgium (BNB survey)

	Feb	Mar	Apr
% balance of responses, sa			
Overall	-4.4	-1.0	4.4
Manufacturing	-4.0	-1.0	4.6
Commerce	-18.2	-10.3	-13.0
Construction	-2.3	0.8	6.4

Demand and labor markets

Unemployment

	Jan	Feb	Mar
Euro area			
Harmonized measure, sa (Eurostat)			
Unemployment rate (%)	8.2	8.2	8.3 8.1
Unemployment (ch m/m, 000s)	22.0	-27.0	209.0

See Essay for details.

	Feb	Mar	Apr
Germany			
Registered (ch m/m, 000s, sa)	9	11	-8 -6
000s, nsa	904.4	827.4	'771.2
Unempl. rate (% , sa)	6.0	6.0	6.0

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Economic Research

Euro area
April 30, 2021

J.P.Morgan**Employment**

	Jan	Feb	Mar	
Germany				
Change m/m, 000s, sa	43	-32	43	-12 <u>20</u> 16

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

Domestic consumption

	Jan	Feb	Mar	
France				
Consumption of goods, volumes, swda				
%m/m	4.9	-5.1	0.0	0.3 -1.1
%oya	-0.4	-0.2	-0.4	0.0 18.7

Inflation**Consumer prices**

	Feb	Mar	Apr	
Euro area (flash)				
HICP (%oya, nsa)	0.9	1.3	1.3	1.6
HICP core (%oya, nsa)	1.1	0.9	0.6	0.8
HICP core (%m/m, sa)	-0.2	-0.2	-0.2	0.0

See Euro area essay for details.

	Feb	Mar	Apr	
Germany (prelim)				
%m/m, nsa	0.7	0.5	0.6	0.7
%oya	1.3	1.7	1.8	2.0
HICP (%oya)	1.6	2.0	1.9	2.1
Baden Wuerttemberg (%oya)	1.4	1.9	2.0	2.1
Bavaria (%oya)	1.3	1.8	1.8	2.0
Brandenburg (%oya)	1.4	2.0	1.9	2.2
Hesse (%oya)	1.0	1.7	1.7	1.9
North-Rhine West (%oya)	1.3	1.8	2.0	2.1
Saxony (%oya)	1.3	1.7	1.8	2.2

	Feb	Mar	Apr	
France (prelim)				
%m/m, nsa	0.0	0.6	0.2	
%oya, nsa	0.6	1.1	1.3	
HICP (%oya)	0.8	1.4	1.5	1.7

	Feb	Mar	Apr	
Italy (prelim)				
%m/m, nsa	0.1	0.3	0.5	0.4
%oya, nsa	0.6	0.8	1.2	1.1
HICP (%oya, nsa)	1.0	0.6	0.5	1.0

	Feb	Mar	Apr	
Spain (flash)				
%m/m, nsa	-0.6	1.0	0.0	1.2
%oya, nsa	0.0	1.3	1.0	2.2
HICP (%oya, nsa)	-0.1	1.2	1.7	1.9

	Feb	Mar	Apr	
Belgium CPI				
%m/m, nsa	0.2	0.3		0.3
%oya, nsa	0.5	0.9		1.2

Import prices

	Jan	Feb	Mar
Germany			
%m/m, nsa	1.9	1.7	1.8
%oya, nsa	-1.2	1.4	6.9

Producer prices

	Jan	Feb	Mar
France			
%m/m, nsa	1.2	1.1	0.8 0.9 1.0
%oya, nsa	0.4	1.8	1.9 4.5
Italy			
%m/m, nsa	1.4	0.5	0.9
%oya, nsa	-0.3	0.7	2.7

Financial activity and public finance**Money and credit data**

	Jan	Feb	Mar
Euro area			
M3 (%m/m sa)	0.6	0.4	0.5
M3 (%oya)	12.5	12.3	12.2 10.1
Loans (%oya) ¹	4.5	4.5	3.6
Loans (m/m, €bn) ¹	11.0	11.6	28.7 27.7 77.8
Of which			
To households	13.7	14.4	20.3 19.8 16.2
To nonfinancial corporates	-3.4	-2.9	12.9 11.8 50.3

¹ Loans to nonbank private sector, adjusted for securitization

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

Japan

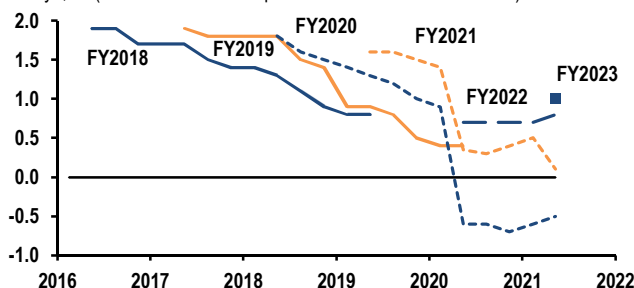
- The BoJ admitted that inflation likely will remain far below its target until Kuroda's term ends in FY2023
- Data released this week confirmed a spring surge in consumption, but we expect a modest setback in May
- Despite supply constraints, IP posted a strong gain in March, also sending a strong signal for April
- The U-rate dropped by 0.3%-pt to 2.6% in March, but the participation rate also fell by 0.5%-pt

This week's BoJ monetary policy meeting (MPM) was uneventful. The BoJ stayed on hold as widely expected; thus the main focus was the BoJ's views on growth and inflation. The BoJ didn't change its assessment of current economic conditions, indicating that "the economy has picked up as a trend," while revising up its real GDP growth outlook to 4.0% from 3.9% for FY2021 (ended March 31) and to 2.4% from 1.8% for FY2022, reflecting strong global demand. On core CPI inflation (ex. fresh food), it revised the FY2021 outlook down by 0.4%-pt, due to the reduction in mobile phone charges, but kept the FY2022 outlook broadly unchanged.

The BoJ also revealed its outlook for FY2023 for the first time, looking for a 1.3% gain in real GDP, and a 1.0% rise in the core CPI (ex. fresh food, Figure 1). This suggests that even with the strong economic backdrop, inflation likely will remain far below the BoJ's target when Governor Kuroda's term ends in FY2023. At the press conference, Kuroda asserted that the BoJ can achieve the target after FY2023, but provided little information to support this statement. As the BoJ assessed that risks of financial system vulnerability remain limited, we expect it to continue pursuing the current low-for-long interest rate policy, although it looks unlikely to achieve the target in the foreseeable future.

Figure 1: BoJ Board members' inflation (ex. fresh food) forecast

%oya, FY(ex. effects of consumption tax hike and free education)



Note: Figures for the recent Outlook Report are the medians of Board members' range views.
Source: BoJ, J.P. Morgan

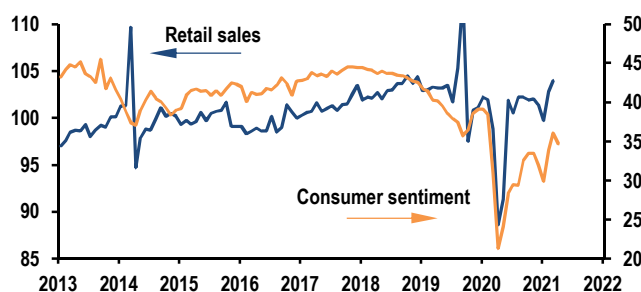
Consumption jumped in the spring

Retail sales grew 1.2% m/m, sa in March, beating our and consensus expectations of about half a percentage rise (Figure 2). This was the second consecutive monthly increase, following a 3.1% jump in February, reflecting a rise in mobility since late January. As COVID-19 infection cases started declining, mobility have risen since late January, reaching the post-pandemic high in late March. Details of March retail sales reflected this move; as people started to go out from home, apparel sales jumped 13.2%, while food and beverage sales declined a modest 0.4%. We expect the consumption recovery to continue through April, but look for a steep plunge in May, due to the third state of emergency starting from this week. The sharp rise in mobility in March resulted in a renewed increase in infections, leading the government to reinstate the state of emergency for the third time one month after it lifted the second state of emergency. For 1Q21 GDP-based consumption, we expect a large jump in services consumption in March, but continue to look for a moderate 4.0% q/q, saar fall.

Figure 2: Retail sales and consumer sentiment

Index, 2015=100, sa

DI, sa



Source: METI, Cabinet Office, J.P. Morgan

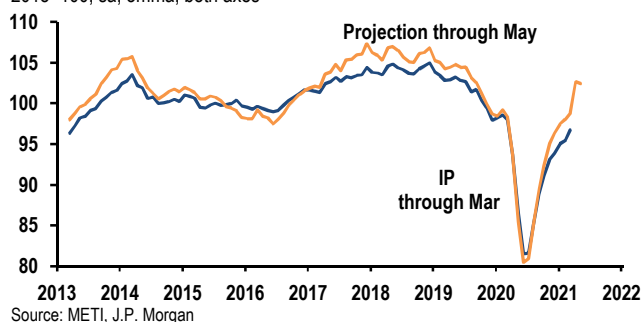
Consumer sentiment was a bit weaker than expected in April, declining 1.4pts to 34.7, following a 2.2pt gain in March. We projected the index to be broadly unchanged, as it should not reflect the recent tightening of business restrictions under the renewed state of emergency that started on April 25, with the survey period ending on April 20. However, as the number of infections rose throughout the month, consumers appear to have become cautious ahead of the government's decision to reinstate the state of emergency. Despite the modest setback, the index remained high, well above the post-pandemic average, indicating that consumers have been less worried about a rise in the number of infections, likely supported by expectations of vaccine rollouts. We continue to expect consumption to remain resilient in April, before plunging temporarily in May due to the business restrictions under the state of emergency.

IP sent an upbeat signal

Industrial production rose 2.2%/m/m, sa in March, beating both our and consensus expectations of 1.4% and 2.0% declines. The March gain reversed the 1.3% February decline, leaving the 1Q reading 12.6%/q/q, saar, above the 4Q20 level (Figure 3). Despite concerns over supply shortages of intermediate goods, production remained firm, supported by strong global demand. By industry, autos, which faced severe headwinds from the intermediate goods supply shortage caused by the global semiconductor scarcity as well as the temporary suspension of other parts production caused by the February earthquake, contributed the most to the March gain, expanding 7.5%/m/m, sa. Meanwhile, output of production machinery and electronics fell, in partial payback for strong gains in earlier months.

The survey of manufacturers' projections looks for a strong 8.4% production increase in April, followed by a 4.3% drop in May (Figure 3). The METI's estimate, a more reliable forecast adjusting for the statistical bias in manufacturers' expectations, looks for a 4.6% rise in April. The METI indicated that the expected rise in production is broad-based, except for autos. Although the auto sector anticipated a decline in production in coming months due to supply constraints, this likely will be more than offset by expected gains in other industries such as production machinery, supported by a strong capex recovery in both domestic and overseas markets. With this result, we now look for IP to surge 15.0%/q/q, saar in 2Q, followed by another 10.0% jump in 3Q.

Figure 3: Industrial production and manufacturers' output projection
2015=100, sa, 3mma, both axes



Labor market conditions improved

Indicators of labor market conditions in March were firmer than we expected. The unemployment rate fell by 0.3%-pt to 2.6%, sa, while the job-offers-to-applicants ratio rose 0.01pt to 1.10. Despite the renewed state of emergency, both indicators improved from 4Q20 to 1Q21, supported by the government's employment subsidy and the firm economic recovery. The March drop in the unemployment rate was largely due to a 11.3%/m/m, sa plunge in the number of unemployed, while

the labor force also declined by 0.5%, suggesting that a number of people gave up seeking jobs. Having said that, taking into account the monthly volatility of the data, we continue to think labor market conditions remain resilient. Conditions likely will moderate somewhat, reflecting the third state of emergency, under which the government has imposed more stringent restrictions than during the winter months, but after it is lifted, labor market conditions should resume firming gradually in response to the recovery in economic activity.

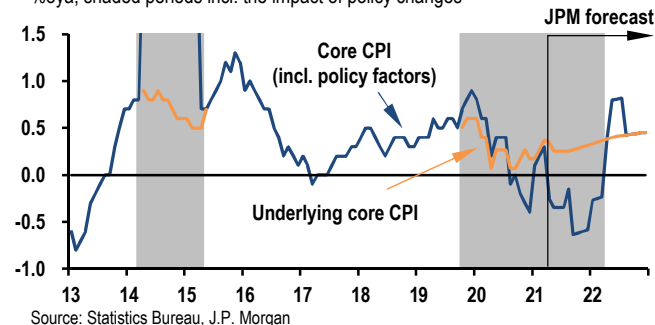
Policy factors to cause deflation

In the April Tokyo CPI report, the BoJ's preferred core CPI (ex. fresh food and energy) decelerated by 0.3%-pt to 0%oya, reflecting cuts in mobile phone charges. Large mobile phone carriers lowered their package plan prices sharply from mid-March in response to Prime Minister Suga's request. Its negative impact on Tokyo core inflation was 0.5%-pt, larger than our expectation of 0.2%-pt, since the Statistics Bureau widened its survey coverage from the previous estimation method. However, excluding this policy-driven shock, underlying core inflation remained firm in April reflecting the recovery of domestic demand, rising by 0.1%-pt to 0.5%oya (calculated by J.P. Morgan).

Reflecting the larger impact of the reduction in mobile phone charges indicated by the April Tokyo CPI print, we revise down our nationwide BoJ core CPI forecast. We now estimate this factor will drag on nationwide BoJ core inflation by 0.6%-pt for a year starting from April. We continue to expect underlying core inflation (ex. fresh food and energy, and temporary policy factors), which the BoJ monitors to gauge the inflation trend, to continue to rise modestly. However, several policy-driven factors will temporarily drag on core CPI hereafter, distorting the inflation path significantly. We look for nationwide BoJ core CPI to fall into deflation to -0.3%oya in April, and decline further to -0.6%oya in 4Q (Figure 4).

Figure 4: Core CPI (ex. fresh food and energy) forecast

%oya, shaded periods incl. the impact of policy changes



Data releases and forecasts

Week of May 3–7

Fri Employers' survey – preliminary

May 7 %oya

8:30am

Dec Jan Feb Mar

Official base

Monthly wages per employee	-3.0	-1.3	-0.4	<u>-0.3</u>
Scheduled payments	-0.1	0.2	0.2	
Full-timers monthly	-0.2	-0.1	0.1	
Part-timers hourly	2.1	3.1	3.4	
Overtime payments	-8.6	-6.6	-9.1	
Special payments	-5.1	-20.4	2.8	
Real wages (total)	-1.7	-0.6	0.2	
Total hours worked	-2.5	-2.1	-3.5	

We project total earnings per employee to fall 0.3%oya in March after a 0.4% decline in February. At the turn of the year, the decline of total wages had slowed significantly despite the renewed state of emergency. In particular, the trend of overtime payments has improved since the plunge in 2Q20, and we thus expect this trend continued in March, pushing up total wages moderately.

Review of past week's data

Services producer prices (Apr 26)

	Jan	Feb	Mar	
%oya	-0.4 -0.3	-0.4 0.0	—	0.7
ex. international transportation	-0.2	0.0		0.6

The service producer prices index (SPPI) turned positive for the first time in a year, rising 0.7%oya in March after 0% in February and -0.3% in January. The March jump partly reflected the recovery of domestic demand, but was largely due to base-year effects and a rise in energy prices, and we thus think underlying SPPI inflation has been on a more moderate rising trend. Given the weak result in the previous year, base effects look more favorable for April, and SPPI inflation readings likely will firm even more in next month's report. The largest positive contributor was advertising services, surging 6.4%oya in March after a 0.4% rise in February. In addition, transportation fees turned positive for the first time in a year, rising 0.6%oya after a 0.3% fall in February.

Commercial sales (Apr 28)

%m/m, sa

	Jan	Feb	Mar	
Total retail sales	-1.7	3.1	<u>0.4</u>	1.2
%oya	-2.4	0.9	<u>4.5</u>	5.3

See main essay.

Tokyo Consumer prices (Apr 30)

%oya, 2015-based

	Feb	Mar	Apr	
Overall	-0.3	-0.2		-0.6
Core (ex fresh food)	-0.3	-0.1	<u>0.0</u>	-0.2
Ex fresh food and energy	0.2	0.3	<u>0.2</u>	0.0

See main essay.

Labor force survey (Apr 30)

%m/m, sa

	Jan	Feb	Mar	
Unemployment rate (% sa)	2.9 3.0	2.9	<u>2.9</u>	2.6
Job offers ratio (% sa)	1.40 1.05	1.09	<u>1.09</u>	1.10

See main essay.

Industrial production – preliminary (Apr 30)

%m/m, sa

	Jan	Feb	Mar	
Production	3.1	-1.3	<u>-1.4</u>	2.2
Shipments	2.9	-1.3	<u>0.8</u>	
Inventories	9.6	-0.9	<u>-5.4</u>	
Inventory/shipments ratio	-4.9	1.0	<u>-0.8</u>	

See main essay.

Housing starts (Apr 30)

	Jan	Feb	Mar	
Housing units %oya	-3.1	-3.7	<u>-5.0</u>	1.5
%m/m, sa	2.2	0.8	<u>2.0</u>	9.0
Mn units saar	0.80	0.81		0.88
Floor space, 6mma* (%m/m, sa)	0.1	0.6		1.0

Housing starts by unit jumped 9.0% m/m, sa in March after a 0.8% rise in February. It left the year-on-year change at 1.5%, and it turned positive for the first time since July 2019. The level of housing starts remained low due to the two large demand shocks, the 2019 consumption tax hike and the 2020 COVID-19 pandemic, but the March strong result suggested it has bottomed, even taking into account the monthly volatility of the data. Both the built-for-sale and built-for-rent categories jumped, rising 22.9% and 8.3%, respectively, in March. We expect a partial negative payback in the coming months, but the trend of the housing market should recover hereafter, even if at a moderate pace. The six-month moving average of starts by floor space, which we think is a better indicator of real GDP residential investment and in put-in-place terms, rose 1.0% m/m, sa in March after a 0.6% rise in February, leaving the 1Q average 3.4% annualized above the average in 4Q. This result is broadly in line with our forecast of a 3.0% ar rise in GDP-based residential investment.

Consumer sentiment (Apr 30)

DI, sa

	Feb	Mar	Apr	
Consumer sentiment	33.9	36.1	<u>36.0</u>	34.7
Standard of living	36.2	38.0	—	36.9
Income growth	35.6	37.2	—	36.6
Labor market conditions	27.7	31.0	—	29.1
Durables purchases	36.1	38.1	—	36.2

% of respondents, "Rise" minus "fall"

Inflation expectations in next 12 months

Nsa	60.4	62.3	—	69.7
Sa	61.4	65.1	—	68.1

1. The DI asks whether a respondent thinks that now is a good time to purchase durables

See main essay.

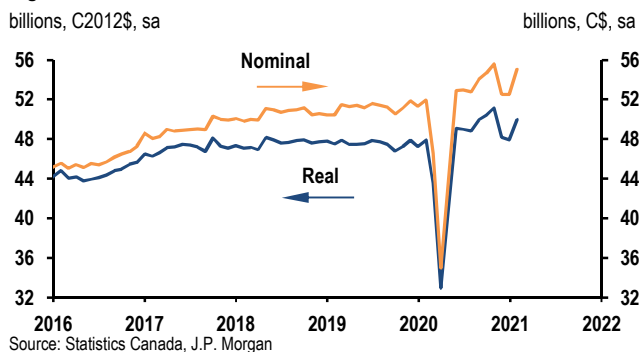
Source: BoJ, CAO, EJCS, JADA, JCSA, JDSA, JFA, JLM, VMA, Markit, METI, MHLW, MILT, MoF, Reuters, Statistics Bureau, J.P. Morgan forecast

Canada

- **Monthly real GDP increased 0.4% in February, implying 6.5% growth in 1Q21**
- **Nominal retail sales rebounded 4.8% in February after a flat print in January**
- **But a surge in new COVID-19 cases and a slow pace of inoculation indicate risk in the near term**
- **Timely indicators like Google mobility and CFIB small business sentiment have softened**

Lagged official data for February were strong this week, with retail sales jumping 4.8% (Figure 1) and the real GDP release implying 6.5% saar growth in 1Q. But COVID-19 case levels remain elevated, and the initially disappointing pace of vaccination has only recently ramped up (Figure 2). Timely mobility indicators from Google and Apple have softened lately (Figure 3), and the CFIB small business sentiment index fell in its April reading this week (Figure 4). Downside risks to our 2Q forecast have grown, but we still look for a strong run of growth starting in 3Q on widespread immunization and continued hefty support from fiscal and monetary authorities.

Figure 1: Real and nominal retail sales

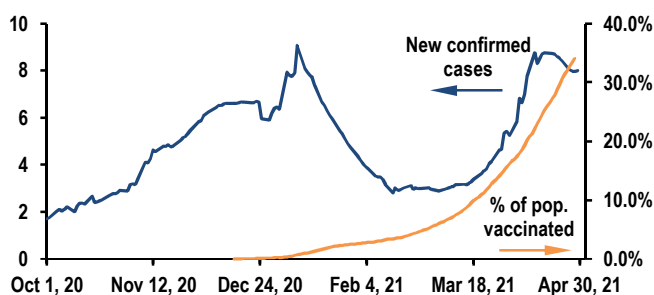


In need of vaccines

Despite the striking resilience in the first quarter, the uncertainty around our second-quarter growth outlook is growing. Semiconductor shortages are expected to be a short-term impediment to auto production and exports. And there is still a measure of uncertainty around the virus. The deadly third wave of the virus has resulted in higher cases and hospitalizations (Figure 2). Ontario renewed a province-wide lockdown and stay-at-home order in April, and with cases heading higher in Alberta, the provincial authorities are renewing restrictions in that province also. Case counts are climbing in the northern regions of Alberta and threaten to disrupt activity in the important energy extraction sector.

Figure 2: COVID-19 new infections and vaccinations

thousands, 7 day average



Effects of the renewed restrictions can be seen in the recent downshift in high-frequency mobility indicators (Figure 3). The CFIB small business confidence survey also fell to 63.4 in April from 68.2 in March, suggesting deceleration in the near term (Figure 4). Moreover, the combination of lockdowns and a return to remote learning for primary students could have negative implications for labor market indicators like hours worked. The impact beyond April is unclear and will depend on the course of the virus, but with vaccine distribution ramping up, we believe that the worst of the damaging economic effects of the virus are past. We continue to think the most likely scenario is a return to a rapid rebound by the second half of 2021.

Figure 3: High frequency mobility indicators

pct change from baseline, both scales

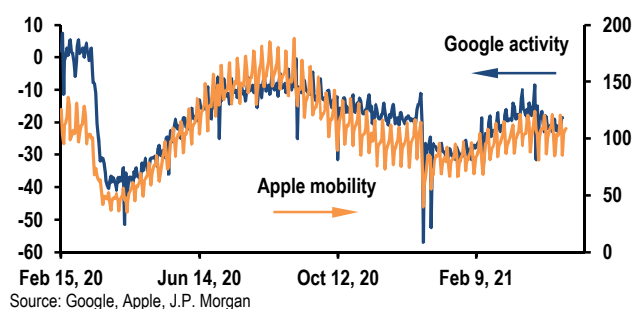


Figure 4: CFIB small business survey

index, sa



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Economic Research**Global Data Watch**

April 30, 2021

J.P.Morgan

Data releases and forecasts**Week of May 3-7****Tue International trade**

May 4	Sa				
8:30am		Dec	Jan	Feb	Mar
	Balance (C\$ bn)	-2.04	1.21	1.04	<u>1.1</u>
	Exports (%m/m)	1.2	8.2	-2.7	<u>7.5</u>
	Imports (%m/m)	-1.5	1.3	-2.4	<u>7.5</u>
	Real balance	-0.40	1.76	0.77	

Tue Building permits

May 4	%m/m, sa, unless as noted				
8:30am		Dec	Jan	Feb	Mar
	Total	-3.9	6.9	2.1	<u>7.0</u>
	%oya	3.0	6.7	25.3	<u>44.4</u>

Fri Labor force survey

May 7	Sa				
8:30am		Jan	Feb	Mar	Apr
	Employment (mn)	18.27	18.53	18.83	<u>18.66</u>
	(ch, m/m, 000s)	-212.8	259.2	303.1	<u>-175.0</u>
	(%m/m)	-1.2	1.4	1.6	<u>-0.9</u>
	(%oya)	-4.4	-3.1	3.9	<u>15.6</u>
	Labor force (mn)	20.17	20.20	20.35	<u>20.27</u>
	(%m/m)	-0.4	0.1	0.8	<u>-0.4</u>
	(%oya)	-0.4	-0.4	3.4	<u>9.1</u>
	Unemployment rate (%)	9.4	8.2	7.5	<u>7.9</u>
	Avg hrly earnings (%oya)	5.9	4.3	2.0	<u>3.9</u>
	Hours worked (%m/m)	0.9	1.4	2.0	<u>0.5</u>

Fri Ivey PMI

May 7					
10:00am		Jan	Feb	Mar	Apr
	Composite index ¹ (sa)	53.0	58.3	64.4	<u>62.6</u>
	Purchasing index (sa)	48.4	60.0	72.9	<u>63.0</u>

1. Calculated and seasonally adjusted by J.P. Morgan

Industrial PPI (Apr 30)

%m/m, nsa, unless noted

	Jan		Feb		Mar
Total	-2.3	2.2	-2.6	2.8	1.6
%oya	-4.4	4.2	7.1		10.0
Ex energy	-1.7	1.6	-2.0	2.1	1.3
%oya	-6.4	6.3	7.9		8.1

Source: Statistics Canada, Ivey Business School, CMHC, Markit, Teranet/National Bank of Canada, CREA, CFIB, Bank of Canada, J.P. Morgan forecasts

Review of past week's data**Retail sales (Apr 28)**

%m/m sa, unless noted

	Dec		Jan		Feb	
Total	-3.7	-5.5	-1.1	0.0	-6.0	4.8
%oya	-4.2	2.8	-1.1	1.2	-6.6	2.2
Ex autos	-3.9	-5.0	-1.2	-0.1	-6.7	4.8
%oya	-3.6	2.1	-2.5	3.6	-7.7	7.0
Ex autos & gasoline	-4.3	-5.5	-1.4	-0.4	-5.1	3.8
%oya	-6.9	5.5	-6.8	7.2	-10.5	9.3
Real retail sales	-4.0	-5.8	-1.6	-0.5	-6.6	4.3
%oya	-2.2	0.6	-0.6	1.4	-5.6	4.4

Monthly GDP (Apr 30)

Sa					
	Dec		Jan		Feb
Total, %m/m	0.1		0.7		<u>-0.5</u>
%oya	-3.0	-2.9	-2.3	-2.2	<u>-2.5</u>

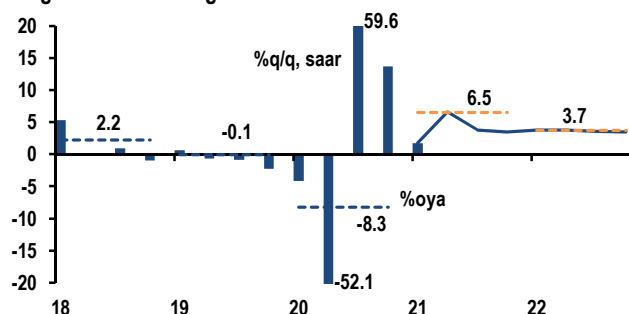
Mexico

- **The recovery continued in 1Q21, albeit at a slower pace; flash GDP growth at 1.8% saar**
- **Downward revisions to earlier data but strong March trade balance**
- **April PMIs to confirm strong momentum in early 2Q**
- **Next week: Inflation to remain near 6% in 2H Apr**

Early this week, the February GDP proxy (and backward revisions) led us to temper our expectations for the flash 1Q GDP release to 2% ar growth from 4.5% before. In the end, GDP growth came in close to our expectations at 1.8%. While certainly a sharp moderation from the pace in past quarters, the report sent encouraging signals. First, we note that the economy managed to grow despite half the country being in pandemic-related lockdown. Second, services led the recovery (+2.9% ar) as opposed to IP, which was flat. And third, the flash GDP points to 2.1% m/m growth in March, which is consistent with our call for GDP to rebound 6.6% in 2Q.

As we have stressed, the most encouraging recent development is that domestically-driven sectors seem to be catching up after lagging the recovery in industrial output. Furthermore, the pickup in domestic demand does not seem confined to consumer spending as investment is also on the rise. We note that public spending grew nearly 8% oya in the first quarter of the year, and we continue to think it will remain supportive in the very short term as we move nearer to the June 6 elections. We maintain our full-year estimate at 6.5% (Figure 1).

Figure 1: Real GDP growth



Source: INEGI and J.P. Morgan forecasts. *Dashed line is annual average. Bars: observed q/q.

A trade deficit for the right reasons

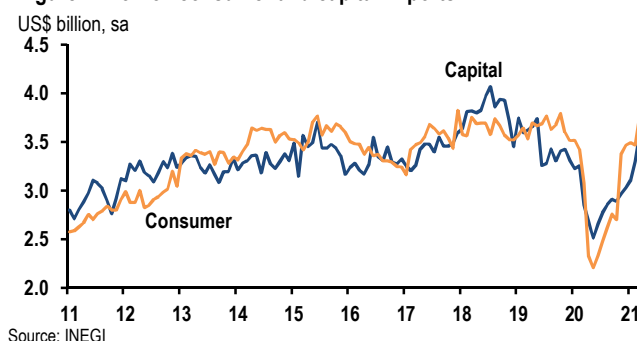
This week's trade data for March strengthened our confidence in positive momentum for the Mexican economy at the end of 1Q21. The rebound in factory exports (3.7% m/m)—roughly 90% of total exports—was broadly in line with expectations, even if the drop in auto exports—likely related to supply shortages in the sector—contrasted with other more upbeat

data on the sector, particularly auto production for March. However, the dip in auto exports was more than offset by a large jump in non-auto factory shipments, which continues to speak to the large boost to domestic activity from US demand.

However, it was the import side of the release that delivered a strong, positive surprise, and one that aligns with our view that domestic demand is gathering steam sectors after underperforming externally-driven throughout the recovery to date. Non-oil intermediate imports—closely linked to the manufacturing cycle—surged 12.3% m/m, which not only highlights the strong boost from external demand, but could also reflect a pickup, or an expected pickup, in domestic demand for manufactures. Pointing in the same direction, non-oil consumer goods imports jumped 8.7% m/m, moving firmly above the pre-pandemic mark. To be sure, the sharp increase could reflect firms rebuilding inventories, but it also aligns with other indicators suggesting that private consumption is accelerating. Furthermore, an inventory buildup would be consistent with expectations of stronger demand ahead.

Finally, the recent strength in capital goods imports has been remarkable, and was capped this week with an 8.9% m/m jump in March (Figure 2). Here several factors could be at play, including capital spending on the back of the government's infrastructure projects, alongside an improving outlook on the economic recovery that is boosting private investment spending after weakness through most of the past year. All in, we are more comfortable with our call for a pickup in domestic demand to complement strong external tailwinds and allow GDP to shift to a higher gear from 2Q onward.

Figure 2: Non-oil consumer and capital imports



Source: INEGI

Of note, the large March trade deficit contrasted with expectations for a large surplus. While this could weigh on the external accounts in 1Q, we think it is unlikely to be sustained near this level, and still look for trade to underpin a current account surplus this year.

Furthermore, the “negative” trade balance print was driven by positive developments from a growth perspective.

Regarding activity momentum, we expect strong April PMIs prints next week after their steep jump in March. Both headline indexes are likely to decline, but we look for the output PMIs to strengthen further in April from the multi-year highs in March. New orders, however, should cool from their impressive March readings.

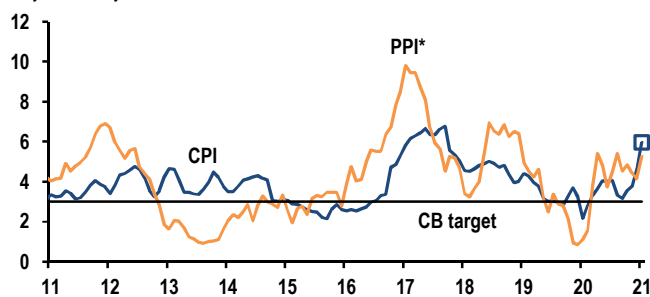
Inflation to remain sticky at 6% in April

Next week, we expect the April CPI to print 0.22%/m/m and 6%oya increases. However, we are more interested in the 2H April data, which are likely to show inflation peaked two weeks earlier and poised to move lower. That said, the convergence toward the target range is likely to be protracted and should only be completed by late 3Q. As for 2H April inflation, we look for prices to remain near flat, edging up 0.03%2w/2w to drag down the annual inflation to 5.9% from nearly 6.1% in 1H Apr.

Some price pressures seem to be ebbing, specifically those related to energy and fresh fruit and vegetables prices, both of which we expect to decline modestly. However, meat and egg prices continue to push higher, likely reflecting the impact of high global commodity prices on livestock feeding costs. We expect non-oil producer prices to continue pushing up consumer prices this year (Figure 3).

Figure 3: Consumer and producer prices

%oya, monthly



Source: INEGI and J.P. Morgan forecast for April CPI boxed. *PPI lagged three months.

Thus, non-core inflation should remain high near 12%, even if it is likely to fall markedly in coming months on benign base effects, particularly on energy prices. Outside the volatile non-core component, core inflation should also ease, as high inflation prints drop out of the annual calculation—recall core goods prices surged in the immediate aftermath of the pandemic. We expect 2H April core inflation at 0.09%2w/2w, bringing the annual core inflation rate down a tenth to 4.05%.

Although core inflation should ease on unfolding base effects, sequential core inflation is still running above its long-term norm, and will likely remain this way as the services economy gathers steam and supply disruptions continue to put pressure on core goods prices, particularly nonfood goods.

Data releases and forecasts

Week of May 3 – 7

Mon May 3 1:00pm	IMEF PMI survey Index, sa	Jan	Feb	Mar	Apr
	Manufacturing	49.7	49.7	50.7	<u>51.1</u>
	Non-manufacturing	48.4	49.6	52.8	<u>52.5</u>
Fri May 7 7:00am	Remittances Total (US\$ bn) %oya	Dec 3.7 17.4	Jan 3.3 25.8	Feb 3.2 16.2	Mar <u>4.1</u> <u>1.1</u>
Fri May 7 7:00am	Consumer prices %2w/2w Core %oya Core	Mar 1H 0.53 0.35 4.12 4.09	Mar 2H 0.28 0.20 5.22 4.15	Apr 1H 0.06 0.18 6.05 4.13	Apr 2H <u>0.02</u> <u>0.08</u> <u>5.88</u> <u>4.03</u>
	All items (%m/m) %oya Core (%m/m) %oya	Jan 0.86 3.54 0.36 3.84	Feb 0.63 3.76 0.39 3.87	Mar 0.83 4.67 0.54 4.12	Apr <u>0.21</u> <u>5.97</u> <u>0.32</u> <u>4.08</u>

Review of past week's data

Economic activity index (IGAE)

%oya, unless noted

	Dec	Jan	Feb	
%oya	-2.7	-5.4	<u>-4.5</u>	-5.1
%m/m sa	-0.3	-0.1	<u>-0.3</u>	-0.3

Trade balance

	Jan	Feb	Mar	
Balance (US\$ mn)	-1.2	2.7	<u>4.6</u>	-3.0
Exports (US\$ bn)	32.7	36.2	<u>41.2</u>	43.0
%oya	-2.6	-1.1	<u>7.6</u>	12.2
Imports (US\$ bn)	33.9	33.5	<u>36.7</u>	46.0
%oya	-5.9	-0.6	<u>4.7</u>	31.4

Real GDP

%oya, unless noted

	3Q20	4Q20	1Q21	
Total	-8.6	-4.3	<u>-3.9</u>	-3.8
%q/q, saar	59.6	13.7	<u>4.5</u>	1.8
Agriculture	7.3	4.8		2.8
Industry	-8.7	-3.1		-3.0
Services	-8.9	-5.0		-4.2

Source: INEGI, Banxico, IMEF, and J.P. Morgan forecasts

Brazil

- We expect COPOM to hike the SELIC rate by 75bp next week
- Attention will be on the guidance from the statement, which we anticipate will have a hawkish tone
- Consumer prices preview continues to signal elevated core inflation
- Number of COVID-19 cases easing and mobility gains may lift 2Q GDP, but risks of a third wave remain

We expect BCB to hike the SELIC rate by 75bp next week, as broadly suggested by the Committee's communication following the last meeting, and in line with the consensus and market pricing. We also expect the COPOM to adopt a more hawkish tone about recent inflation developments, not only because short-term inflation has been higher and more persistent than expected, but, most importantly, because these pressures and the recent deterioration of economic policy credibility has started to contaminate medium-term inflation expectations. The Focus survey already points to consensus forecasts of IPCA inflation at 3.60%, 10bp above BCB's target for 2022, the year that now should be the most relevant horizon for monetary policy, according to BCB.

Our quantitative analysis suggests that the COPOM will revise up its inflation scenario for 2021, reinforcing that current inflation remains incompatible with achievement of the inflation targets, while the inflation scenario for 2022 may remain broadly the same, benefiting from the recent appreciation of the BRL (Table 1). Even so, we believe that the COPOM should be explicit that the balance of risks around the central scenario has shifted since the last meeting, in the direction of higher-than-expected inflation over the relevant horizon for monetary policy.

Table 1: COPOM inflation scenario¹

Meeting	2021	2022
August	3.0	3.4
September	2.9	3.3
October	3.1	3.3
December	3.4	3.4
January	3.6	3.4
March	5.0	3.5
May	5.0-5.2	3.4-3.6

Source: BCB and J.P. Morgan

1. Focus consensus for SELIC and purchasing power parity FX forecast

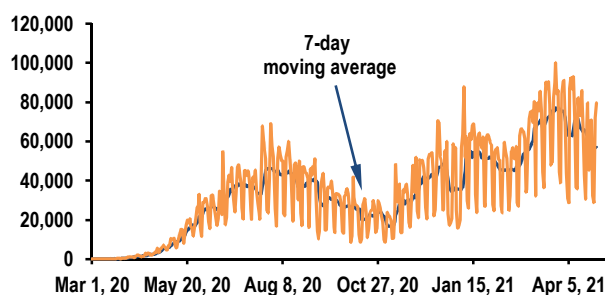
In recent communication, COPOM members highlighted that the current scenario still requires expansionary monetary policy, stating that they have started a partial normalization that

would still leave the SELIC rate below neutral. However, we believe that BCB should remove the wording "partial normalization" from the statement and recognize the deterioration of the balance of risks, allowing more degrees of freedom to act in case inflation expectations de-anchor further, a risk we have been highlighting since the beginning of March. In addition, whereas the COPOM may continue to emphasize the temporary nature of some inflationary shocks, it should reinforce that monetary policy will act to contain the secondary effects of these shocks. These changes in the communication would signal that the COPOM will do whatever is necessary for inflation to converge to the target in 2022.

At this point, it seems to us that the COPOM should favor leaving the door open regarding the pace of its next policy movements. With the SELIC rate at 3.5% after next week's meeting, the "extraordinary degree of monetary stimulus" would have been reduced according to BCB's framework (the COPOM added this wording when it cut the SELIC rate from 3.75% to 3.0% at the May 2020 meeting). With that in mind and considering the lingering uncertainties about the economic recovery due to the worsening of the COVID-19 pandemic in March and early April, and the relevant horizon for near-term policy moves, which is now mainly 2022, we judge that is more likely that the COPOM will signal a moderation in the pace of tightening to 50bp at the next meeting. However, we don't discard the possibility that the central bank hints at a further 75bp hike for the June meeting as well, front-loading the adjustment to curb and control inflation expectations.

Figure 1: COVID-19 cases

New, per day and 7-day average



Source: Ministry of Health and J.P. Morgan

Separately, the COVID-19 numbers may have important repercussions on GDP growth dynamics. COVID-19 cases and deaths have been easing, in line with our [central scenario](#) discussed earlier this month, with the 7-day average number of cases now running around 57,000, down from the 77,000 peak in late March (Figure 1). At the same time, mobility is increasing faster than we have anticipated, posing upside risks to GDP growth in 2Q, on top of the potential additional fiscal stimulus for the next months ("Governo garante antecipação do 13º do INSS e estuda benefício a informais," Veja, April

28, 2021). However, this rise in mobility also increases the risk of a third wave, which could further delay the full economic recovery.

IPCA-15 inflation lower in April, but core remained elevated

The IPCA-15 index (a preview of the IPCA) increased 0.60% in April, below the market consensus forecast but not as low as our call for a 0.52% rise. IPCA-15 inflation accelerated to 6.2%oia, from 5.5% in March, and the core IPCA-15 increased 0.33%/m, only 3bp below our estimate, lifting core IPCA-15 inflation from 3.3% to 3.7%.

While sequential inflation can be lower in the short term, we think that there are important upward pressures on inflation, mainly from food prices. Both local wholesale and global commodity prices rose significantly in recent days, suggesting that food prices will remain elevated for some time.

Delayed deliveries of the COVID-19 vaccines

The Ministry of Health published a new schedule of delivery of vaccinations to the country, [updating the March version that we used for our calculations](#). The schedule shows sizable delays relative to our expectations, which already excluded the delivery of the Covaxin and Sputnik vaccines. The note from the Ministry of Health confirmed that the delays up to now were due to four factors: difficulties in importing the main input for the vaccine; delays in the delivery of doses ready for use; waiting time in Anvisa (local regulator); and logistical and operational issues at laboratories.

To illustrate the potential effects of these delays, if all other parameters of our model were kept constant, vaccinations would consistently reach around 1 million doses per day in July whereas before we were expecting this level to be reached in June. When we assumed a 40-day delay in our original exercise, we had in mind that the official calendar could have to be changed given the challenges of production and distribution, which—as this week's announcement revealed—is now happening. In this sense, considering the new schedule and the assumption of 30 days of delays, we estimate herd immunity would be reached by mid-December; before we expected it at the beginning of the month.

Data releases and forecasts

Week of May 3 – 7

Wed	Industrial production	Dec	Jan	Feb	Mar
May 5					
8:00am	%m/m sa	0.8	0.4	-0.7	<u>-2.1</u>
	%oia nsa	8.3	2.3	0.3	<u>8.5</u>

Wed	COPOM meeting	Dec	Jan	Mar	May
May 5					
	Selic rate	2.00	2.00	2.75	<u>3.50</u>

Fri	Wholesale prices (IGP-DI)	Jan	Feb	Mar	Apr
May 7					
7:00am	%m/m	2.91	2.71	2.17	<u>1.54</u>
	%oia	26.55	29.95	30.63	<u>32.57</u>

Fri	Retail sales	Dec	Jan	Feb	Mar
Apr 7					
8:00am	Core %m/m, sa	-6.1	-0.2	0.6	<u>-4.0</u>
	Core %oia, nsa	1.3	-0.3	-3.9	<u>-1.5</u>
	Broad %m/m, sa	-3.1	-2.2	4.1	<u>-12.1</u>
	Broad %oia, nsa	2.8	-3.1	-1.9	<u>6.0</u>

Review of past week's data

Current account balance

	Jan	Feb	Mar	
Current account (CA)	-8.2	-3.2	<u>-3.0</u>	<u>-4.0</u>
CA, 12-month sum	-20.7	-18.1	<u>-6.9</u>	<u>-17.8</u>
CA, 12-month sum, %GDP	-1.4	-1.3	<u>-0.5</u>	<u>-1.2</u>
Foreign direct investment	1.8	9.0	<u>7.0</u>	<u>6.9</u>

Consumer prices (IPCA-15)

	Feb	Mar	Apr	
%m/m	0.48	0.93	<u>0.52</u>	0.60
%oia	4.57	5.52	<u>6.02</u>	6.17

Wholesale prices (IGP-M)

	Feb	Mar	Apr	
%m/m	2.53	2.94	<u>1.16</u>	<u>1.51</u>
%oia	28.94	31.10	<u>31.56</u>	<u>32.02</u>

National unemployment rate

	Dec	Jan	Feb	
Rate, 3-month average (nsa)	13.9	14.2	<u>14.6</u>	14.4

Fiscal sector

Minus denotes surplus

	Jan	Feb	Mar	
BRL bn				
Primary	58.4	11.8	<u>-6.6</u>	-5.0
12-month sum, as % of GDP				
Primary	9.4	9.2	8.8	
Nominal	13.7	13.4	12.9	
Net debt, % of GDP	61.6	61.6	<u>61.4</u>	61.3

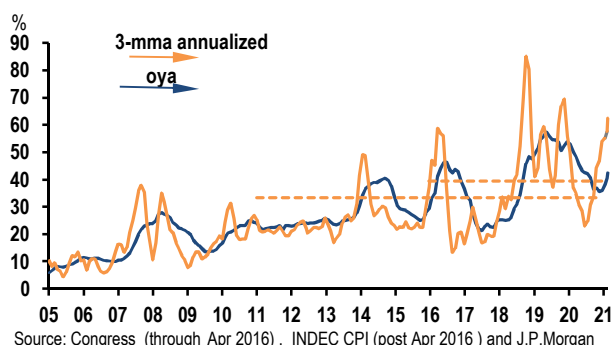
Source: BCB, FGV, IBGE, and J.P. Morgan forecasts

Argentina

- Capital and price controls have proved of limited value in controlling inflation
- Treasury continues to resort to direct central bank assistance
- April high-frequency CPI data offer no respite

Argentina's complex capital and price controls, financial repression, and exchange rate intervention have proved of limited use in controlling inflation. Indeed, inflation has averaged 3.9%/m/m since October 2020, compared to 2.2%/m/m in the first nine months of 2020 (Figure 1). Moreover, the acceleration of underlying inflation is even stronger, given the web of price controls and agreements, together with frozen energy bills (known as utility "tariffs"). Our estimates suggest this factor accounts for about 15%-pts in repressed inflation.

Figure 1: Argentina CPI



Yet, the policy framework has been mostly unaltered despite the inflation acceleration. The most notable tweak to the prevailing framework has been the slowing in the pace of depreciation of the official exchange rate, without adjusting the monetary policy rate. The policy tweak aims to contain cost-push tradables price inflation, on the idea that firms set prices in a backward-looking manner. Moreover, marked real exchange rate appreciation has proved a common political economy response in election years, aiming to boost consumption of tradable goods and also some services, as households advance purchases in the expectation of future exchange rate depreciation.

The crawling peg depreciation pace decelerated to just 1.5%/m/m last week. Thus, the peso is appreciating in real terms at a rate close to 3% per month, proving an extra tax on the profitability of the tradable sector and thus exports (Figure 2).

Figure 2: Crawling peg depreciation pace



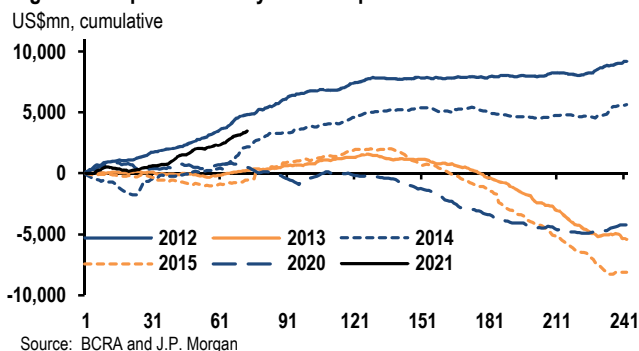
Source: BCRA

Real exchange rate appreciation may help to contain the measured inflation rate in the near term. But underlying inflation looks poised to continue accelerating unless the authorities revamp the policy framework.

The Treasury has continued to resort to direct central bank assistance, which adds to the 7.5% of GDP in transfers from BCRA last year. In the first four months of this year, the Treasury received ARS148.8bn in net funding from the market. But through April 23, the BCRA has provided ARS190bn in direct financing to the Treasury for via transitory loans. Thus, the CB has funded about 56% of the fiscal deficit so far this year.

Granted, the seasonality of agricultural exports will continue to mask the brewing imbalance until early 3Q21 when soy-dollars sales by exporters should start to decelerate (Figure 3). By then the policy mix could fuel a wider parallel-official FX gap, renewing upward inflation pressure as we enter 4Q21 when politics takes the spotlight.

Figure 3: FX purchases in years of capital controls



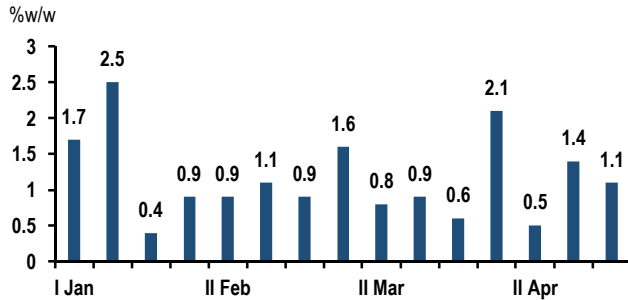
April high-frequency CPI data offer no respite

Following the inflation jump in March, high-frequency data for the first four weeks of April show the headline CPI increasing more than 4%/m/m. According to EcoGo's tracker,

month-to-date inflation (through April 23) is running at 4.3%/m, a mild deceleration from the prior month's 4.8%, lifting annual inflation to 43.5%oya and YTD inflation to 16.8%.

The monthly increase again mainly reflects further food price gains despite the wide array of measures and price controls the government recently announced. Indeed, the food CPI jumped 5.1% month-to date, re-accelerating in the third week of the month, on the heels of the 4.6% increase last month (Figure 4). Month-to-date increases were again concentrated in meat and vegetable prices (up by 6.1%/m and 6.6%, respectively).

Figure 4: High-frequency food CPI evolution



Note: I Jan stands for first week of January; II Feb for second week of February.
 Source: EcoGo.

Our point estimate April sequential inflation currently stands at 3.9%/m, below the figure suggested by EcoGo high-frequency data. Given the large 1%-pt inflation surprise in March, we anticipate there could be some payback from the strong rise in education and clothing prices last month, which explained the bulk of our CPI surprise. INDEC concentrated the increases in these two categories in March (jointly contributing 1.5%-pts), while we expected the impact to be more evenly distributed between March and April. We now wait for full-month data to be released next week to reassess our monthly forecast if need be.

Data releases and forecasts

Week of May 3 – 7

Government tax revenues					
Mon		Jan	Feb	Mar	Apr
May 3	%oya, real	6.0	8.1	11.3	<u>18</u>
Construction					
Thu		Dec	Jan	Feb	Mar
May 6	%oya	27.4	23.3	22.7	
Industrial production					
Fri		Dec	Jan	Feb	Mar
May 7	%oya	5.0	4.5	1.6	<u>18</u>

Review of past week's data

Consumer confidence				
	Feb	Mar	Apr	
Index	37.8	38.2	<u>37</u>	35.3

Source: INDEC and J.P. Morgan forecasts

Chile

- **The 3.0 pension withdrawal coupled with pandexit likely by 3Q21 prompted revisions to our forecasts**
- **We now see 2021 GDP growth and Dec headline inflation higher at 6.9%/y/y and 3.8%o/y, respectively**
- **We also expect CBC to hike the policy rate by 50bp in 4Q21**

After a somewhat disorderly political process, which may have long-lasting political implications, Chile's government enacted the law that allows a third withdrawal of up to 10% of remaining pension funds from the private pension system. The third pension fund withdrawal coupled with pandexit likely by 3Q21 prompted upward revisions to our 2021 GDP growth and our year-end headline inflation projections, by 100bp and 30bp, respectively. Consequently, we also adjust our monetary policy rate path and now expect 50bp in hikes in 4Q21 (vs. 25bp, previously).

While the marginal impact on consumption of this new withdrawal is smaller than from the prior two withdrawal events, we still expect a 1.3%-pt boost to real consumption translating into about 0.6%-pt additional upside on GDP after controlling for the impact on net exports.

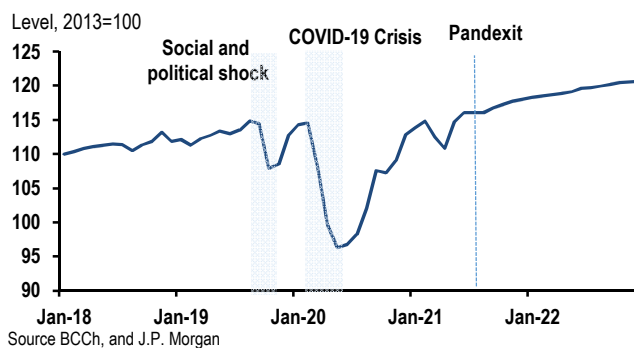
Moreover, on top of the pension fund withdrawal's effect on households' disposable liquidity, the recent fiscal announcements also increase fiscal accommodation, with the structural primary fiscal deficit now estimated at 5.3% of GDP, up from 1.9% in 2020. The additional fiscal thrust vis-à-vis the prior estimate adds another 40bp to growth in 2021. Thus, we revise our 2021 GDP growth forecast to 6.9%/y/y, from the prior 5.9%/y/y estimate.

In terms of quarterly performance, the extra liquidity support from fiscal transfers and pension withdrawals should have boost spending by mid-May so we raise 2Q growth and also the average sequential pace for 2H21. In particular we now see activity growth averaging 6.5%/q, saar in 2H21, as additional household disposable liquidity coincides with the lifting of mobility restrictions (pandexit) as the country quickly rolls out vaccinations (Figure 1). Finally, the higher statistical carry into next year also prompts us to raise 2022 GDP growth to 3.4%/y/y (from 3.2%).

Prior pension fund withdrawals pushed up inflation, both headline and ex. volatiles (the underlying CPI the central bank focuses on) in September, October, and January, impacted mostly by addition household consumption stemming from the liquidity windfall. While we acknowledge the declining marginal impact of redemptions, the extra household disposa-

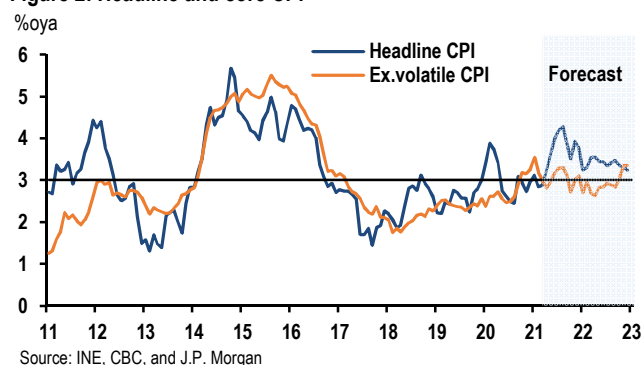
ble liquidity coupled with pandexit likely by 3Q21 prompts us to raise our projection of Dec 2021 inflation by 30bp, to 3.8%.

Figure 1: Chile headline economic activity



Of note, the monthly profile suggests headline inflation will rise above the 4% ceiling of the target range in July-August, which may push up inflation expectations (Figure 2).

Figure 2: Headline and core CPI



Finally, beyond the usual headline inflation risks associated with the exchange rate and volatile prices, the quicker reduction of slack also prompts an upward revision of underlying inflation. In our base case scenario we see ex. volatiles inflation averaging 3.1%o/y in 2H21 (2.9%, previously).

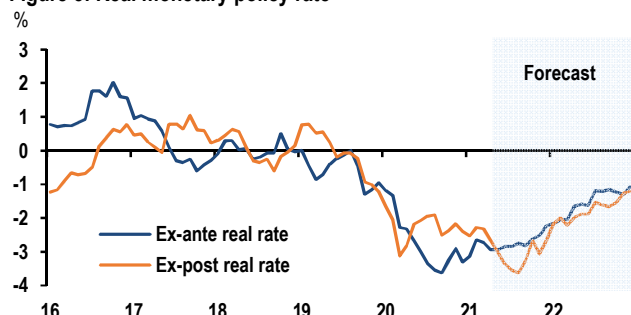
The CBC has made slight but important shifts to its communication. Four months ago, the guidance was for the policy rate to be stable at the 0.5% technical minimum over most of the policy horizon. That migrated into keeping the benchmark stable for several quarters with the interest rate corridor suggesting a solid probability of tightening by 1Q22. Finally, the CBC also clarified that the unconventional policies deployed do not preclude conventional policy.

Despite the forward guidance, our base case had the central bank starting a gradual tightening cycle in 4Q21 to avoiding the unmooring of inflation expectations. But the aforementioned revisions for narrower slack and higher inflation suggest a quicker reduction of the monetary impulse than before.

Another factor to weigh is the stronger fiscal support committed for 2021, with the structural fiscal deficit now expected at 6.0% of GDP (from 4.2%, previously), resulting in a 3.4% of GDP fiscal thrust (defined as the change in the structural fiscal balance). And the risk is tilted to the upside on further fiscal transfers. A second factor worth mentioning is political uncertainty, particularly given the election cycle ahead in 2H21 and the current popularity of leftist presidential candidates. The primaries scheduled for July 18 may force markets to reassess the political risk premium, at a time when Chile is likely to leave mobility restrictions behind (pandexit) and inflation is poised to print above the target ceiling.

In all, we now project the policy rate at 1.0% by year-end, as we add another 25bp hike in 4Q21 to our prior base case. We believe the CBC will prioritize gradualism when it comes to the policy rate path, which argues for starting the cycle earlier rather than permitting substantial deviations of inflation expectations from the target. Such a policy response would allow the CBC to pursue a gradual and ordered increase in both ex-post and ex-ante real policy rates to minimize curve volatility. This strategy would be consistent with the policy rate at 2.0% by end-2022. Granted, heightened and persistent political uncertainty and/or a shift in the Fed stance could force the central bank to exit negative real rates more quickly than we envision.

Figure 3: Real monetary policy rate



Source: INE, CBC, and J.P. Morgan

Chile

Data releases and forecasts

Week of May 3 - 7

Economic activity					
Mon		Dec	Jan	Feb	Mar
May 3	%oya	-0.1	-2.8	-2.2	<u>3.2</u>
Trade balance					
Fri		Dec	Jan	Feb	Mar
May 7	\$bn	2.0	1.5	0.5	<u>1.3</u>
CPI					
Fri		Jan	Feb	Mar	Apr
May 7	%m/m	0.7	0.2	0.4	<u>0.3</u>
	%oya	3.1	2.8	2.9	<u>3.3</u>

Review of past week's data

Unemployment

	Jan	Feb	Mar	
%	10.2	10.3	<u>10.4</u>	10.4

Retail sales

	Jan	Feb	Mar	
%oya	5.9	4.0	<u>4.0</u>	23.8

Manufacturing production

	Jan	Feb	Mar	
%oya	-4.3	-0.6	<u>-2.5</u>	3.9

Source: INE, BCC, and J.P. Morgan estimates

Colombia

Data releases and forecasts

Week of May 3 - 7

CPI					
Wed		Jan	Feb	Mar	Apr
May 5	%m/m	0.41	0.64	0.51	<u>0.32</u>
	%oya	1.60	1.56	1.51	<u>1.68</u>

Review of past week's data

Exports

	Jan	Feb	Mar	
US\$bn	2.6	3.0	<u>3.2</u>	3.3

BanRep policy rate

	Feb	Mar	Apr	
%	1.75	1.75	<u>1.75</u>	1.75

Source: DANE and J.P. Morgan estimates

Peru

Data releases and forecasts

Week of May 3 - 7

Lima CPI					
Sat		Jan	Feb	Mar	Apr
May 1	%m/m	0.7	-0.1	0.8	<u>0.1</u>
	%oya	2.7	2.4	2.6	<u>2.6</u>

Review of past week's data

Policy rate

	Feb	Mar	Apr	
%	0.25	0.25	<u>0.25</u>	0.25

Source: INEI and J.P. Morgan estimates

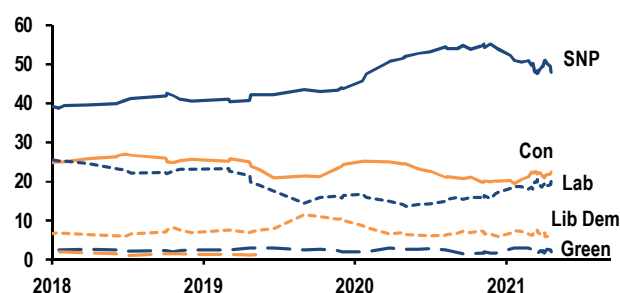
United Kingdom

- **Scottish election next week set to produce another call for independence**
- **BoE to revise up its growth forecasts next week...**
- **...implicitly acknowledging the next rate move is up**

Next week's Scottish parliamentary elections are expected to prompt a further call for a second referendum on independence. At minimum, a majority of pro-independence parties looks very likely. But polls show the SNP's decline at the start of this year has been arrested, and a recent Survation poll shows the party with a 29-pt lead. This would be expected to produce a five-seat majority of 67 for the SNP (Figure 1).

Figure 1: Scottish opinion polling for Parliament election

%, 5 poll moving average



Source: Scottish polling agencies, J.P. Morgan

While many issues surround the debate, the immediate emphasis following next week's election is likely to be on the power balance between Westminster and Holyrood from both a political and legal standpoint—specifically in determining whether and when a second referendum can go ahead. UK Prime Minister Boris Johnson has indicated he is likely to reject calls for another referendum in the foreseeable future. Brexit has led to a considerable change in circumstances since the first referendum in 2014, and Johnson will want to be careful not to use overly heavy language that could risk inflaming the issue further. But he is likely to argue again that the first independence referendum in 2014 was intended to be a once-in-a-generation vote, and that political energy should be channeled toward securing a recovery from the pandemic. Panelbase polling from March indicated some support from Scottish voters for this stance, with no majority in favor of holding a referendum imminently.

That argument is likely to weaken over time. But Johnson will not want to risk bringing his premiership to a premature halt. Opinion polls have shown the “yes” lead for independence falling away this year, after what had been a significant widening in late 2019. But opinion on the issue still looks very evenly divided and could go either way. We would expect

Johnson to rule out a referendum during the current UK Parliament which ends in May 2024.

Even if Westminster granted a referendum, as the Institute of Government points out there was a three-and-a-half-year wait after the Scottish elections that led to the first referendum in 2014. In the SNP's roadmap for a second referendum published in January, it set a target for a vote by late 2023. From this perspective a second referendum appears unlikely to occur imminently. And that's before considering the political friction that could follow the Scottish election.

The Scotland Act of 1998, which provides the legal underpinning of the country's devolved powers from the UK, is fairly widely understood to make a binding referendum on independence illegal without Westminster's consent. For example, the 2014 referendum took place after the UK granted a “Section 30” order, which enabled a temporary transfer of power so that the Scottish government could proceed with a vote legally. There appears to be more disagreement about whether a non-binding or “advisory” referendum would be legal. Scotland first minister Nicola Sturgeon this year indicated that this grey area would enable the Scottish government to legally hold a referendum even if the UK tried to block its initial attempt, and the Scottish government has already produced a draft bill for a referendum, which it stands ready to pass following an election victory.

Opinion within the SNP on this issue is split, however, and the UK would likely contest such a move by the Scottish government in the Supreme Court. Before it comes to that, the UK government also could change the law to remove this grey area. These issues could end up playing out over the summer if the SNP wanted to push hard. But with Alex Salmond's new Alba party—which has taken the more assertive stance toward pushing for independence—struggling to get off the ground, swings in public opinion after the election are likely to determine how far the Scottish government is prepared to go.

BoE meeting preview

Next week the BoE is set to make a suite of forecast upgrades and a small hawkish shift. This should not come as a surprise given several positive developments since its last forecast round in February, and indeed the central bank itself flagged these changes at the last meeting in March. The official data have come in stronger than expected, with the BoE set to forecast a 1Q GDP contraction of closer to 1.8%q/q, versus its prior 4% estimate. With the timelier survey data at the start of 2Q also looking strong, we expect the BoE will not dampen its forecast for growth in the middle of this year by much. The UK's low COVID-19 infection rate, the recovery roadmap remaining on schedule, a rapidly recovering global economy, and the signifi-

cant fiscal easing in the March budget all argue for the BoE to remain cautiously upbeat about the year ahead. We expect it to forecast strong gains close to our own 4%-5%q/q forecast over the middle two quarters of this year, returning output back to its 4Q19 level by the end of the year, i.e., a quarter earlier than projected in February (Table 1). A key underpinning of this forecast will be the extension of the furlough schemes at the budget. While the BoE will project a rise in the unemployment rate later this year, it is likely to expect a peak of closer to 6.0%-6.5% in 4Q rather than its prior 7.8% estimate for 3Q.

Table 1: BoE forecasts

%, based on market rates assumption unless stated

	Feb				May (expected)			
	2021	2022	2023	2024	2021	2022	2023	2024
GDP (FY)	5.1	7.2	1.3	-	7.0	5.3	1.1	-
CPI (Avg.)								
Mkt rates	1.4	2.1	2.06	1.98	1.7	2.1	2.01	1.98
Constant rates	1.4	2.0	1.98	1.89	1.7	2.1	2.05	2.01
U-rate (EOP)	6.4	5.1	4.6	4.5	6.1	5.0	4.5	4.4

Source: J.P. Morgan

Consistent with the improvement in the outlook, we think the BoE will implicitly acknowledge an incremental shift in the appropriate policy path. We expect it to project a slight inflation overshoot toward the end of its forecast horizon, based on an unchanged policy rate. That would send a subtle message that the next move in rates is likely to be upwards, albeit not for some time yet. If the BoE projects two-year-ahead inflation close to 2% based on market rates, this would hint at a late-2022 or early-2023 liftoff. We don't think the BoE will consume much energy in highlighting this point, however, as it is still far away. We doubt the BoE would consider higher rates until it sees a sustained decline in the unemployment rate from its peak, and given that peak hasn't even happened yet the immediate message is likely to be that policy will remain easy over the next year. We expect a unanimous decision to leave rates on hold next week, with the MPC voting to continue with its November asset purchases.

These purchases are scheduled to be completed by the end of this year. At some point this year, the current £4.4bn a week pace will need to be lowered, otherwise the BoE will overshoot its desired target stock. But the MPC has already acknowledged this. There are multiple paths purchases could follow. But we assume there will be a partial tapering down to around £3bn a week after the May meeting, followed by a further reduction to around £2bn from August. At its February meeting the BoE also indicated that it was starting to review its forward guidance on balance sheet unwind. It is possible we see an announcement next week, although our guess is that an update on balance sheet guidance is more likely to come in August.

Data releases and forecasts

Week of May 3 – 7

Tue Money supply

May 4	Sa				
9:30am		Dec	Jan	Feb	Mar
	M4 ex IOFCs (%m/m)	0.5	1.2	0.6	
	M4 ex IOFCs (%3m/3m, ar)	13.7	13.0	9.7	
	M4 lending (%m/m) ¹	0.2	-0.4	-0.5	
	M4 lending (%oya) ¹	3.9	3.9	2.8	

¹ Excludes the effect of securitization.

Tue Net lending to individuals (BoE release)

May 4	£ bn, average				
9:30am		Dec	Jan	Feb	Mar
	Consumer credit (ch, m/m)	-0.9	-2.7	-1.2	
	Mortgage approvals (000s, sa)	101.3	97.4	87.7	
	Secured lending (ch, m/m)	5.5	5.3	6.2	

Tue PMI survey final, manufacturing

May 4	% balance, sa				
9:30am		Jan	Feb	Mar	Apr
	Overall index	54.1	55.1	58.9	<u>60.7</u>
	Output	50.7	50.5	56.6	<u>59.1</u>

Wed New car registrations

May 5	%3m/12m nsa				
9:00am		Jan	Feb	Mar	Apr
	Total	-26.0	-27.4	-12.0	
	Private (ex. bus. and fleet)	-28.8	-29.3	-18.3	

Thu PMI survey final, services & composite

May 6	% balance, sa				
9:30am		Jan	Feb	Mar	Apr
	Services business activity	39.5	49.5	56.3	<u>60.1</u>
	Composite				
	Output	41.2	49.6	56.4	<u>60.0</u>
	New orders	44.1	49.2	57.0	
	Employment	45.5	49.7	53.3	

Thu BoE policy decision, minutes and monetary policy report

May 6
12:00pm

See main text

Fri PMI survey final, construction

May 7	% balance, sa				
9:30am		Jan	Feb	Mar	Apr
	Overall index	49.2	53.3	61.7	

Review of past week's data

CBI survey of distributive trades

% balance				
	Feb	Mar	Apr	
Volume of retailer sales	-45	-45		20

Source: Rightmove, CBI, BBA, BCC, GFK, BRC Markit, SMMT, RICS, Land Registry, ONS, BoE, and J.P. Morgan forecasts

Emerging Europe

- **Hungary: NBH held rates as expected**
- **Russia: Credit impulse strengthened further in 1Q**
- **Turkey: CBRT's hawkish tone reduces risk of premature easing**
- **Poland: Inflation was higher than expected in April**
- **Czech Republic: 1Q GDP was in line with expectations**

Hungary: NBH rhetoric unchanged in April

As expected, the Monetary Council (MC) at the NBH kept the base rate unchanged at 0.6%, with no changes to the interest rate corridor setup (o/n depo at -0.05%, o/n lending at 1.85%). There were also no hints of any upcoming changes to the key one-week deposit facility rate set every Thursday. The communication continued recent months' stance: the statement attributed the upcoming spike in CPI inflation (to near 5%o/a in 2Q21) to a combination of tax increases and base effects in oil (a view with which we agree), but noted that with inflation expectations well anchored, underlying measures should trend close to the target. The release emphasized that the NBH will stand ready to neutralize any persistent rise in the CPI.

The combination of a noisy profile in 2020 with the rise in Brent prices since 4Q20 will result in a massive spike in the fuel CPI to over 40%o/a in coming months. This, combined with "sin tax" increases in April, is likely to push headline inflation to near 5%o/a in the next few prints. NBH communication has flagged this effect for months now, such that the market is fully aware of it, and has had plenty of time to adjust. We assume, therefore, that the actual prints near 5% will not trigger a significant forint sell-off. The key thing to watch is what happens to the core CPI inflation (excluding tax effects), as any upward moves would imply a more persistent rise in inflation.

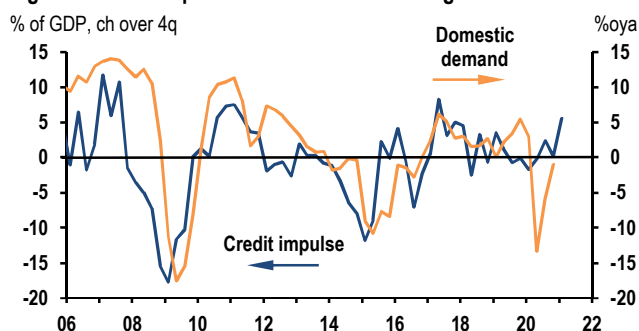
Core CPI inflation has trended lower in recent months, and the market-based core CPI has been running slightly above a 3% annualized pace recently, in both goods and services. Given the harshness of the last COVID-19 episode, a relatively stable forint, and low inflation in the Euro area, we expect momentum will linger at these levels in coming months. If we combine that with the abnormal strength in goods pricing last year, we have some favorable base effects in 2Q and 3Q, which should offset any small upside surprises in the run-rate. We expect core inflation to reaccelerate from around the turn of the year as growth accelerates on the back of the reopening, mass vaccination, and additional EU-funded capex.

In our view, the NBH has no intention of raising interest rates unless it is left with no other choice. If our base case materializes, i.e., if despite the spike in the headline CPI, core inflation remains near the target, then the forint is likely to also remain well behaved. If, however, core inflation surprises to the upside meaningfully, risks would be clearly skewed for pressure to build on the currency, something the NBH is uncomfortable with. In its favor, Hungary has a relatively high policy rate (from a regional perspective) and a current account surplus that reduces the forint's exposure to market volatility. Yet, the NBH continues to pump liquidity into the market, mainly through its sovereign QE program, but also through corporate QE, long-term repos, and a corporate lending scheme, which could weigh on the forint at the wrong time. All in all, we see the most likely outcome as one where the NBH muddles through without tightening policy, but the aggressive unconventional easing reduces room for maneuver, and even small upside inflation surprises could trigger a market backlash. The risks are therefore clearly skewed toward higher rates.

Russia: Credit flow remained strong in 1Q

In Russia, March banking sector data show that corporate credit creation remained strong, while consumer credit firmed further. Credit flow also remained solid for the full quarter and was much stronger compared to a year ago. Therefore, although corporates continued to delever on external debt, our measure of the credit impulse shows a significant increase in 1Q. Other things equal this should boost domestic demand in coming months (Figure 1). Recall that we define the credit impulse as a change in new credit flow in a quarter compared to a year ago; e.g., the 1Q21 impulse is the difference between a change in credit stock during 1Q21 as a percent of GDP and a change in credit stock during 1Q20 as a percent of GDP. For a measure of credit we take bank credit (excluding FX revaluation effects), local bonds of the non-financial sector, and non-financial sector borrowing from abroad (BoP data).

Figure 1: Credit impulse vs. domestic demand growth - Russia



Source: Rosstat, CBR, CBonds, J.P. Morgan

Turkey: CBRT sounds more hawkish

In the first inflation report briefing of his term, the CBRT's newly-appointed governor adopted a quite hawkish tone, emphasizing rising risks to disinflation and pledging to keep policy tight with "determination and perseverance." Governor Kavcioglu said that a tight policy stance would create a strong buffer against possible market volatility. The CBRT also raised up its year-end inflation forecast to 12.2% from 9.4%. The new forecast is more reasonable in our view and is closer to the market consensus at 13.1% and the J.P. Morgan forecast of 13.4%. Perhaps most importantly, Governor Kavcioglu, in answering a question, said that the CBRT would monitor the results of the policies implemented so far and suggested that the needed steps on the monetary policy front would be taken toward the end of the year. This is in line with our policy rate call. We see the first cut in September and have been warning against the risk of premature easing. Looking at the speech—but keeping in mind political uncertainties—we can say that this risk looks lower now than it was previously.

On the whole, the speech turned out to be a positive surprise for the markets. However, deeds are much more important than words and Kavcioglu first needs to implement what he has promised to see any improvement in credibility. Especially important will be the inflation prints in April and May and how the CBRT reacts to them.

Poland: Upside surprise in April CPI

In Poland headline inflation jumped to 4.3%oya in April (from 3.2%), a 0.4%-pt overshoot relative to expectations. A large increase was anticipated for April on the back of fuel price rises, and sure enough, the combination of rising Brent and a low 2020 base triggered a surge in fuel inflation from 7.6%oya in March to 28.1% in April. On top of this, food prices were much stronger than anticipated, rising 1%/m (we expected 0.3%) which relative to our own forecast, explains the upside surprise in inflation. Triangulating the data made available with the flash release, we estimate that core inflation dropped 0.2%-pt to 3.7%oya, in line with our original estimate. If the final print confirms our estimate, core inflation momentum weakened a bit in April. We estimate that the core CPI, in seasonally adjusted terms, rose 0.24%/m in April, down from a 0.46%/m average over the past three months.

We see core inflation slowing in coming months, due to a high base and also lower increases in regulated prices, which are included in the NBP's definition of core CPI. Nonetheless, the main measure of core CPI inflation monitored by the central bank is likely to remain near or above 3.5%oya, the upper limit of the NBP's tolerance band. Meanwhile, the fuel price

spike will keep headline inflation clearly above 4% the rest of this year, approaching 5% toward end-2021. In 2022, assuming Brent prices at around US\$74, the base is so strong that headline would fall significantly and trend around 3%oya.

The data suggest inflation pressures are persistent, expectations are trending higher (whichever way one measures them), growth is solid, and the output gap likely is small. Yet the NBP's message is clear: no tightening ahead. We are sympathetic to the argument that the pandemic isn't over, and hence, tightening now could prove premature. Yet, there is no denying that Poland's inflation pressures are real, and an issue to be addressed once the pandemic allows. An overly dovish forward-looking message risks further de-anchoring inflation expectations, which could require a larger policy correction later on. In the near term, the NBP board likely will continue to argue that inflation is driven only by energy, food, regulated prices, etc. If core inflation dropped in April, as we think it did (to 3.7%), it would be down significantly from the 4.3%oya peak in November when the NBP was totally at ease, so the dovish stance is likely to remain. We expect the NBP will hike from 4Q22 only, starting with a 15bp move to 0.25%.

Czech Republic: Mild contraction in 1Q

Despite a lingering, strict lockdown, the Czech economic activity contracted marginally during 1Q21. GDP declined 0.3%q/q, sa, roughly in line with our forecast (-0.4%) and the CNB's (-0.2%), but less than the market consensus expected (-0.8%). Available monthly activity data indicate the industrial sector was a source of weakness in 1Q, contracting 1.9%q/q, in contrast to 4Q20 when its strength offset the weakness in retail and wider services activity. Retail sales dropped 2.5%, back to the lows of the second wave. Yet services output grew 0.7%, a result that was probably facilitated by the very low starting point, as well as the continued adaptation of businesses to the lockdown environment.

We expect activity to rebound in 2Q, leading to 4%/y/y GDP growth this year. In April activity likely remained weak due to the continued lockdown, but we assume that from May a cautious reopening would allow for a pickup in both retail and services activity, which combined with a low base from 1Q will likely lead to solid GDP growth. After that we expect the vaccination rollout to reach the vast majority of the population in 3Q, which is also when the first EU-funded capex projects get going. This would coincide with similar dynamics in the wider EU, which should provide for a boomy environment in 2H21. In terms of annual growth, the marginal upside surprise in 1Q (-0.3%oya vs -0.4% expected), is sufficient to round our annual growth number to 4%, from 3.9% previously. In 2022 we continue to see the economy expanding by 5.5%.

Data releases and forecasts

Week of May 3 – 7

Czech Republic:

Mon	PMI				
May 3	Index				
9:00am		Jan	Feb	Mar	Apr
	PMI, Manufacturing	57.0	56.5	58.0	—

Thu	Retail trade				
May 6	%oya, unless otherwise stated				
9:00am		Dec	Jan	Feb	Mar
	Retail sales ex auto, nsa	1.6	-8.9	-5.8	—
	%m/m, sa	7.3	-6.5	2.8	—

Thu	CNB rate decision	
May 6	%	

On hold: 0.25%

Recently the central bank's communication has turned more cautious, delivering a message of commitment to keeping inflation in check, but also openly defending that a premature hike is a bigger mistake than a late one in the current circumstances. We expect a repetition of this message next week. Minor revisions to the forecast are likely, including a higher starting point for inflation (reflecting upside surprises mostly in food and fuel, though also to some extent in core), but near-term growth is likely to be cut marginally, such that we don't expect inflation to be revised up beyond the very near term. The Pribor projection is likely to show rate hikes starting later (3Q21 vs. 2Q21), with around two hikes implied in 2021 and another three in 2022. We expect the CNB will hike 25bp in November (to 0.5%), and then hike twice again by 25bp in 2022, in 2Q and 4Q.

Fri	Industrial output				
May 7	%oya				
9:00am		Dec	Jan	Feb	Mar
	Production, nsa	8.0	-5.0	-2.6	—
	Production, wda	2.4	0.3	-2.6	—
	%m/m, sa	-0.2	-0.8	-2.0	—

Fri	External trade				
May 7	CZK bn				
9:00am		Dec	Jan	Feb	Mar
	Trade balance	15.9	25.7	22.5	—
	Ytd	183.5	25.7	48.2	—
	Ytd a year ago	145.7	17.3	37.6	37.9
	Exports %oya	18.6	-1.6	3.8	—
	Imports %oya	8.7	-4.7	3.3	—

Source: CNB, National Statistics, Eurostat, J.P. Morgan forecasts

Hungary:

Thu	Industrial output				
May 6	%oya				
9:00am		Dec	Jan	Feb	Mar
	Production, wda	1.1	-2.8	3.9	—
	Production, nsa	5.8	-6.7	1.9	—
	%m/m, swda	-2.5	0.3	4.8	—

Thu	Retail trade				
May 6	% change				
9:00am		Dec	Jan	Feb	Mar
	%oya, wda	-3.9	-1.9	-5.9	—
	%m/m, swda	-0.9	0.4	-1.2	—

Thu	NBH 1-week deposit facility rate decision	
May 6	%	

On hold: 0.75%.

Fri	External trade				
May 7	EUR mn				
9:00am		Dec	Jan	Feb	Mar
	Trade balance	398	855	856	—
	Ytd	5795	855	1711	—
	Ytd a year ago	4334	412	1523	—
	Exports, %oya	11.0	-5.2	0.8	—
	Imports, %oya	7.1	-10.5	3.9	—

Source: NBH, National Statistics, Eurostat, J.P. Morgan forecasts

Poland:

Tue	PMI				
May 4	Index				
9:00am		Jan	Feb	Mar	Apr
	PMI, Manufacturing	51.9	53.4	54.3	—

Wed	NBP rate decision	
May 5	%	

On hold: 0.10%. See main text for details.

Source: NBP, National Statistics, Eurostat, Markit, J.P. Morgan forecasts

Romania:

Thu	Retail sales				
May 6	%oya				
9:00am		Dec	Jan	Feb	Mar
	Retail sales, sa	4.2	-2.7	-1.2	—
	%m/m, nsa	0.2	-3.1	0.6	—

Source: National Statistics, Eurostat, J.P. Morgan forecasts

Russia:

Tue	PMI surveys				
May 4					
10:00am		Jan	Feb	Mar	Apr
	PMI, Manufacturing	50.9	51.5	51.1	<u>51.5</u>
	PMI, Services	52.7	52.2	55.8	<u>55.0</u>

Fri	Consumer prices				
May 7	%oya, unless otherwise stated				
4:00pm		Jan	Feb	Mar	Apr
	%oya	5.2	5.7	5.8	<u>5.5</u>
	%m/m, nsa	0.7	0.8	0.7	<u>0.6</u>

Source: Rosstat, MinFin, AEB Russia, Markit, J.P. Morgan forecasts

Turkey:**Consumer prices**

May 3 % change

10:00am

	Jan	Feb	Mar	Apr
Consumer prices				
%oya	15.0	15.6	16.2	<u>17.2</u>
%m/m	1.7	0.9	1.1	<u>1.8</u>
Producer prices				
%oya	26.2	27.1	31.2	<u>31.3</u>
%m/m	2.7	1.2	4.1	<u>1.4</u>
Core CPI (I)				
%oya	15.5	16.2	16.9	<u>18.3</u>
%m/m	1.1	0.4	1.3	<u>2.3</u>

Strong domestic demand, fresh FX passthrough, and a weak base are the factors behind the expected rise in inflation in April. We expect inflation to peak in April and to remain sticky above the 16% mark until the last quarter of the year.

CBRT rate decision

May 6 %

2:00pm

	Jan	Feb	Mar	Apr
CBRT 1-week repo rate	17.00	17.00	19.00	<u>19.00</u>
CBRT ON borrowing rate	15.50	15.50	17.50	<u>17.50</u>
CBRT ON lending rate	18.50	18.50	20.50	<u>20.50</u>
CBRT Late liquidity	21.50	21.50	23.50	<u>23.50</u>

See main text.

Source: Turkstat, CBRT, Ministry of Treasury and Finance, J.P. Morgan forecasts

Review of past week's data**Czech Republic:****Real GDP, preliminary**

%oya, unless otherwise stated

	3Q20	4Q20	1Q21	
Real GDP, nsa	-5.1	-4.8	<u>-2.2</u>	-2.1
%q/q, saar	30.4	2.5	<u>-4.6</u>	-1.2

Source: CNB, National Statistics, Eurostat, J.P. Morgan forecasts

Hungary:**NBH rate decision**

%

NBH held the base rate at 0.6%, as expected. See main text for detail.

Average gross wages

%oya

	Dec	Jan	Feb	
Gross wages, nominal	10.6	9.5	—	9.8
Industry	10.5	7.3	—	7.8
Public sector	7.0	13.3	—	13.5

External trade, final

EUR mn

	Dec	Jan	Feb	
Trade balance	398	855	<u>856</u>	849
Ytd	5795	855	<u>1741</u>	1704
Ytd a year ago	4334	412	<u>1523</u>	
Exports, %oya	11.0	-5.2	<u>0.8</u>	1.9
Imports, %oya	7.1	-10.5	<u>3.9</u>	5.3

NBH 1-week deposit facility rate decision

%

NBH held the 1-week depo rate at 0.75%, as expected. See main text for detail.

Source: NBH, National Statistics, Eurostat, J.P. Morgan forecasts

Poland:**Consumer prices, preliminary**

%oya, unless otherwise stated

	Feb	Mar	Apr	
%oya	2.4	3.2	<u>3.9</u>	4.3
%m/m, nsa	0.5	1.0	—	0.7

Source: NBP, National Statistics, Eurostat, Markit, J.P. Morgan forecasts

Turkey:**Capacity utilization**

%

	Feb	Mar	Apr	
Total manufacturing	74.9	74.7	<u>74.8</u>	75.9
Durables	76.8	73.0	<u>71.6</u>	74.5
Nondurables	70.6	70.6	<u>70.0</u>	71.6

Foreign trade

US\$ bn, except as noted

	Jan	Feb	Mar	
Trade balance	-3.6	-3.5	-4.8	
Exports	14.3	15.1	18.0	
%oya	3.0	8.8	42.8	
Imports	17.8	18.6	22.8	
%oya	-3.7	9.1	<u>27.0</u>	26.8

Source: Turkstat, CBRT, Ministry of Treasury and Finance, J.P. Morgan forecasts

South Africa & SSA

- **South Africa: GDP likely grew in 1Q21, despite high-frequency data painting a mixed picture**
- **Slow vaccination pace poses some downside risk to near-term growth forecast; we see full-year growth at 4.3%**
- **A stronger trade balance to keep the current account in surplus until 4Q21**

South Africa: Mixed but generally positive growth picture

The 4Q20 GDP report signaled a strong inventory rebuild, support from terms of trade, and scope for business sector catchup that generally convinced us of stronger 1Q21 growth momentum, leaving upside risk to our 2021 growth call. Even so, we flagged the downside risks to 1H21 growth associated with a possible third wave of COVID-19 infections, and the re-emergence of intermittent power cuts. Indeed, higher-frequency data have generally painted a mixed picture through February. Manufacturing output now tracks a 2.3%q/q decline in 1Q21, following a 1.2%q/q contraction in February, mainly due to a drop in metals and petroleum products production. Meanwhile, mining output looks set to bounce from the disappointing fall in 4Q20, having risen 3.8%q/q, sa in February, after a 3.9% gain in January, leaving sequential growth tracking 16.0%q/q, saar. Yet, with consumption data generally benign in February, we remain comfortable with our 1.8%q/q, saar 1Q growth projection.

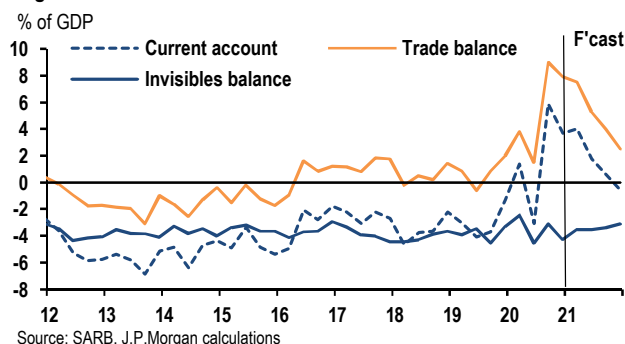
We remain concerned about the slow pace of vaccination in South Africa, given a possible third wave of COVID-19 infections this winter, which poses a downside risk to our 2Q and 3Q growth forecasts. Even so, the favorable base effect from the 2Q20 sinkhole would deliver eye-popping 17%oya growth in 2Q21. Looking into 2H21, we see still positive terms of trade, a favorable global backdrop, and continued vaccinations reactivating lagging sectors, taking full-year 2021 growth to 4.3%/y, before moderating to 2.2% in 2022.

A stronger trade balance to keep the current account in surplus until 4Q21

After an impressive run in 2020, the trade balance remained strong at an estimated 7.5% of GDP in 1Q21. The performance is largely underpinned by a solid outturn in the shipment of precious stones and base metals helping exports outpace imports, despite pressures from a rising oil imports bill. The sluggish growth of imports largely reflects subdued domestic demand, while exports are benefiting from the stronger global growth backdrop. That said, we expect the trade bal-

ance to narrow gradually as imports strengthen later in the year, with the current account balance likely to fall back into deficit in 4Q21 (Figure 1).

Figure 1: South Africa current account balance



South Africa

Data releases and forecasts

Week of May 3 – 7

Mon May 3	New vehicle sales %oya, except as noted				
	Total vehicle sales	Dec	Jan	Mar	Apr
	%m/m, nsa	-10.6	-14.3	-13.3	—
		-4.7	-7.0	8.3	—
Mon May 3 11:00am	Barclays BER PMI Index				
	PMI (% weights)	Jan	Feb	Mar	Apr
	Business activity (25)	50.9	53.0	57.4	—
	New sales orders (30)	43.5	52.1	56.1	—
		47.2	54.0	60.4	—
Fri May 7 8:00am	SARB official reserves US\$ bn, except noted				
	Gross reserves (R bn)	Jan	Feb	Mar	Apr
	Gross reserves	822.3	804.4	784.0	—
	International liquidity	54.8	53.8	53.0	—
		52.0	51.6	50.9	—

Review of past week's data

Trade balance R bn, except as noted				
	Jan	Feb	Mar	
Trade balance	12.4	31.4	29.0	52.8
Fiscal revenue and expenditure Rand bn, sa				
	Jan	Feb	Mar	
Balance	-76.2	-12.8	—	-29.8
Revenue	87.5	132.7	—	147.0
Expenditure	163.7	145.6	—	176.8

Source: StatsSA, National Treasury, J.P. Morgan forecasts

SSA

Data releases and forecasts

Week of May 3 – 7

Nigeria	Markit/Stanbic IBTC Bank PMI				
	Index				
Tue		Jan	Feb	Mar	Apr
May 4	PMI	50.7	52.0	52.9	—
Kenya	Markit/Stanbic Bank PMI				
	Index				
Wed		Jan	Feb	Mar	Apr
May 5	PMI	53.2	50.9	50.6	—
Zambia	Markit/Stanbic Bank PMI				
	Index				
Wed		Jan	Feb	Mar	Apr
May 5	PMI	47.7	47.1	49.7	—
Ghana	Markit/Stanbic Bank PMI				
	Index				
Wed		Jan	Feb	Mar	Apr
May 5	PMI	51.2	52.5	51.8	—
M'bique	Markit/Stanbic Bank PMI				
	Index				
Wed		Jan	Feb	Mar	Apr
May 5	PMI	47.5	49.1	49.1	—

Review of past week's data

Zambia : CPI				
%oya	Feb	Mar	Apr	
	22.5	22.8	—	22.7

Source: Haver, J.P. Morgan forecasts

Australia and New Zealand

- We expect the RBA to leave its suite of administered rates unchanged at the coming week's May meeting
- We expect the Bank to upgrade its GDP and inflation forecasts while lowering the unemployment rate outlook
- Australian 1Q headline inflation disappointed at 0.6%/q/q, reflecting minimal domestic price pressure
- NZ's unemployment rate is forecast to climb four-tenths to 5.3%

The RBA's May policy meeting is likely to be uneventful from a policy perspective, with no changes expected regarding the cash rate, YCC, or QE programs. However, given the Statement on Monetary Policy is released the following Friday we do anticipate sweeping changes to the Bank's macroeconomic forecasts. Australia's 4Q20 real GDP surpassed the RBA's expectations, with the annual growth ending the year at -1%oya (RBA forecast: -2%oya). Even assuming an unchanged quarterly profile this upside surprise is likely to see the RBA bump up its growth forecasts for 1H21 and at the same time nudge down expectations for 2022.

In terms of the labor market forecasts, the unemployment rate has fallen materially from the pandemic high (7.5%) and at the current 5.6% reading is almost a full percentage point below the RBA's 6.5% mid-2021 forecast. We expect the RBA to lower its near-term forecast to 5.5%, but with JobKeeper wage subsidies having rolled off and government stimulus now winding down officials are likely reticent to extrapolate the recent trend. For this reason we expect the RBA's forecast to show the unemployment rate averaging 5% through 2022, though we acknowledge that risks are skewed toward a jobless rate with a 4-handle.

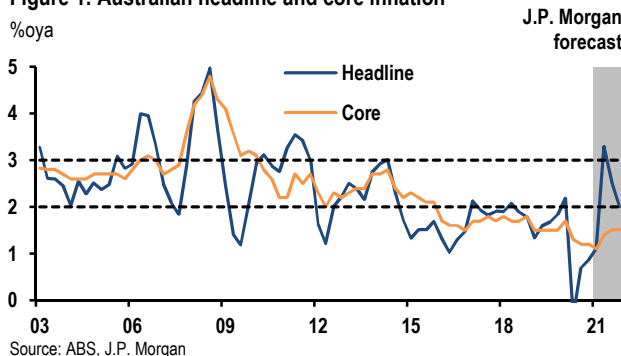
Although this week's inflation data disappointed consensus expectations (actual: 0.6%/q/q, consensus: 0.9%/q/q), the RBA's interpolated forecasts implied consecutive quarterly prints averaging close to zero. This is overly pessimistic, particularly allowing for the 1Q outcome and we look for the 2021 headline inflation forecasts to be revised five-tenths higher, reaching 3.5%oya in June and 2%oya in December. The Bank's trimmed mean forecasts are materially lower (2021 average: 1.25%) and broadly aligned with the J.P. Morgan view. We expect the Bank to retain the current core inflation forecasts.

Headline unemployment misses the mark

Australia's 1Q headline inflation printed at 0.6%/q/q, below J.P. Morgan and consensus expectations (both 0.9%/q/q). As a result, the annual rate rose just two-tenths to 1.1%oya and

remains materially below the 2.5% midpoint of the RBA's target band. Core inflation (an average of the trimmed mean and weighted median measures) also printed below forecast at 0.35%/q/q or 1.2%oya (J.P. Morgan: 0.4%/q/q; consensus: 0.5%/q/q). Importantly, there is no individual CPI component to which the March quarter undershoot can be attributed, with inflation disappointing expectations across numerous sub-groups. We still expect the annual rate to spike higher in the June quarter on the back of pandemic-related base effects (Figure 1), but the broad weakness in the 1Q print suggests domestic price pressures are minimal.

Figure 1: Australian headline and core inflation



Fuel prices were strong, rising 8.7%/q/q, although marginally weaker than the tracking data had suggested. Inflation across the housing sub-group remains depressed (+0.1%/q/q), with electricity prices falling 1%/q/q and offsetting the partial rebound in gas/water prices. Rental inflation was unchanged in 1Q21, but should start to recover from April as state-level moratoriums on rental evictions are phased out or expire. Food inflation increased 0.4%/q/q, holiday travel and accommodation prices fell 1.7%/q/q, while education and insurance costs edged higher.

NZ jobless rate biased higher

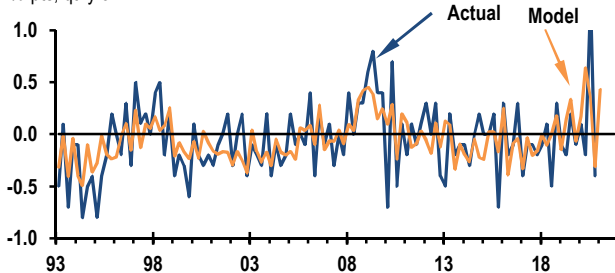
The NZ labor market beat consensus expectations in 4Q, with a drop in unemployment. This was suggested by the business surveys, but didn't align with the weak tracking of demand, as revealed later in GDP. We expect the story to realign in 1Q, with a 0.4%-pt rise in the unemployment rate back to 5.3% (Figure 2). Newer high-frequency measures of employment revealed weaker tracking, particularly in the primary sector, and given the highly seasonal effect of lost tourism sector activity in the summer. Our models, which take PCAs of business survey inputs, along with seasonal factors, similarly argue for a deterioration. Stats NZ has reported working-age population growth at a steady, very modest 0.2%/q/q.

Combined with our forecast for the jobless rate, this pace of labor supply growth (and constant participation) implies a 0.3%/q/q contraction in employment. On this result, the unem-

ployment rate would still not be particularly elevated in absolute terms, but would be back at the highest level since 2016. Moreover, we have found previously that around such levels only modestly below NAIRU, the impulse to non-tradables inflation is minimal, and insufficient to offset the drag on inflation expectations in Phillips curve models of inflation. Unemployment above 5% is therefore clearly a challenge to hitting the inflation target, not to mention the relatively new, full employment component of the dual mandate. Such slack should also produce fairly soft wage inflation. We look for a tepid 0.3%q/q outcome for the LCI.

Figure 2: New Zealand's unemployment rate

%pts, qtrly ch



Source: Stats NZ, J.P. Morgan. Model uses own lags, principal components of ANZ and NZIER business survey indicators, and seasonal factors.

New Zealand

Data releases and forecasts

Week of May 3 – 7

Wed	Labor force survey	Jun	Sep	Dec	Mar
May 5					
8:45am	Unemployment rate (%)	4.9	5.3	4.9	<u>5.3</u>
	Employment (%q/q)	-0.7	-0.8	0.6	<u>-0.3</u>
	Participation rate (%)	70.1	70.1	70.2	<u>70.2</u>

Thu	ANZ business confidence	Feb	Mar	Apr	May
May 6					
11:00am	Index	-4.1	-8.4	-2.0	-

Review of prior week's data

Trade balance

	Jan	Feb	Mar
NZ\$m	0.1	0.2	0.0

Source: ABS, Stats NZ, J.P. Morgan forecast

Australia

Data releases and forecasts

Week of May 3 – 7

Tue	Building approvals	Dec	Jan	Feb	Mar
May 4					
11:30am	%m/m	3.0	-19.4	21.6	-

Tue	Trade balance	Dec	Jan	Feb	Mar
May 4					
11:30am	A\$bn	10.4	9.6	7.5	<u>6.8</u>

Review of prior week's data

Headline CPI

	Sep	Dec	Mar
%q/q	1.6	0.9	0.6
%oya	0.7	0.9	1.1

Trimmed mean

	Sep	Dec	Mar
%q/q	0.3	0.4	0.3
%oya	1.2	1.2	1.1

Private sector credit

	Jan	Feb	Mar
%m/m	0.3	0.3	0.2

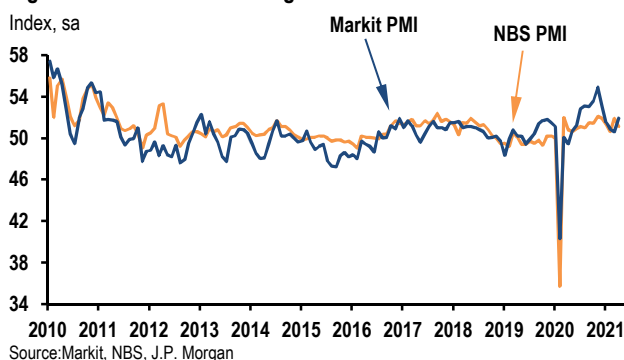
Greater China

- **China: NBS and Caixin manufacturing PMIs moved in opposite directions in April**
- **Industrial profits grew 92.3%oya in March**
- **Hong Kong: March trade activity beat expectations; exports grew 26.4%oya**
- **Taiwan: 1Q21 advance GDP beat expectations, growing 8.16%oya led by exports and capex**

April's NBS PMIs came in below our expectations, following a sharp rebound in March. The NBS manufacturing PMI dropped 0.8pt in April to 51.1, following a 1.3pt increase in March, on broad-based easing across the output, new orders, and export orders components. However, the Caixin/Markit manufacturing PMI rebounded 1.3pts to 51.9 in April, reversing four consecutive monthly declines, with gains in output, new orders and export orders.

The divergence between the two sets of April readings may be attributable to: i) sample coverage difference, as the Caixin/Markit is biased toward smaller enterprises; or ii) correction for the divergence in March when the NBS manufacturing PMI rebounded by 1.3pts while the Caixin/Markit manufacturing PMI surprisingly fell by 0.3pt. The April divergence re-aligns the two readings: both are higher than their 1Q21 averages (Figure 1).

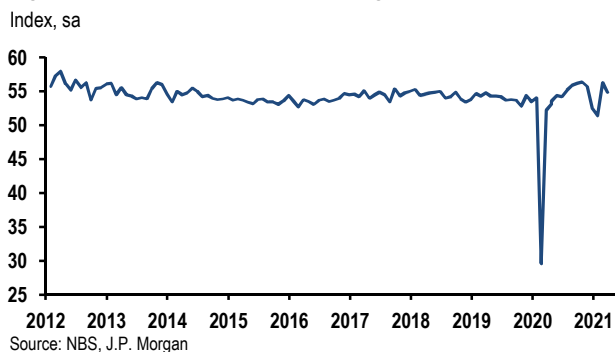
Figure 1: China manufacturing PMIs



The NBS non-manufacturing PMI dropped 1.4pts to 54.9 in April, following a steep 4.9pt rebound in March (Figure 2). In particular, it appears the recovery in domestic consumption and services activity upon the relaxation of public health measures in early March has continued into April. Indeed, despite the decline in the overall services activity reading, sectors that had been negatively affected by the earlier tightening of public health measures, including accommodation, restaurants, culture, sports, and entertainment, registered solid gains in April, hinting at strengthening household consump-

tion spending. The composite NBS PMI fell 1.5pts to 53.8 in April, staying above the 53.1 average 1Q21 reading.

Figure 2: China NBS non-manufacturing PMI

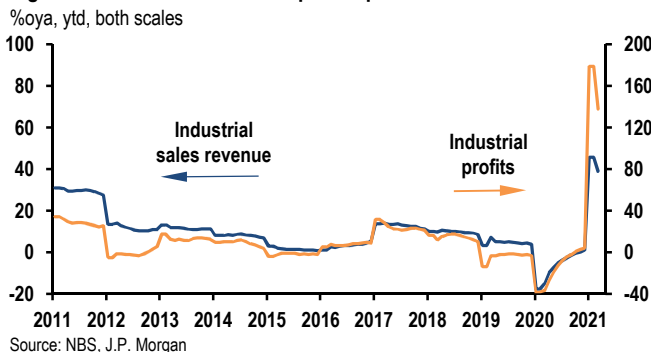


We expect the Chinese economy's growth outlook will be driven by: (1) further normalization of domestic activity following the removal of travel restrictions; (2) further macroeconomic policy normalization; and (3) the outlook for a strong global recovery. Overall, we continue to expect sequential GDP growth to pick up to 6.8%/q/q, saar in 2Q from 4.3% in 1Q, as the domestic demand recovery starting in March (especially in consumer spending and service-sector activity) continues through 2Q. This likely will be followed by normalization of GDP growth to around the trend pace of 5.6%/q/q, saar in 2H21, as the impact of further macroeconomic policy normalization kicks in despite a constructive outlook on external demand. Overall, our forecast for China's 2021 GDP growth stands at 9.3%/y.

March industrial profits grew 92.3%oya

China's industrial profits growth continued to soar in March, supported by a low base effect and the industrial-sector recovery. The NBS announced that total industrial profits grew 92.3%oya in March and 137.3%oya in 1Q (vs. 178.9%oya in January-February, and 4.1%oya in full-year 2020, Figure 1). To gauge the underlying growth trend, industrial profits in 1Q21 were 50.2% higher than in 1Q19, implying strong 22.6%oya average annual growth over the past eight quarters.

Figure 3: China industrial enterprises' profits and sales revenue



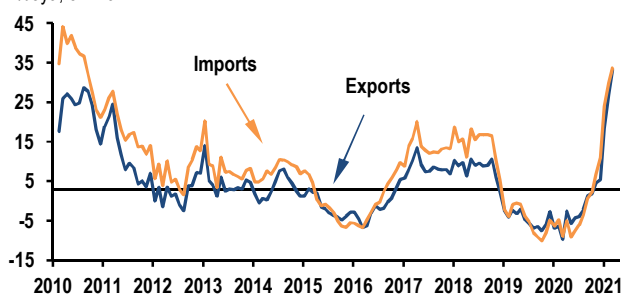
Going into 2021, amid fiscal policy consolidation and the normalization of credit policy, we expect a rotation from public to private investment, with a solid recovery in manufacturing FAI. Since steady demand growth and strong industrial pricing have revived corporate sales revenues and industrial profits, the groundwork for a solid 2021 rebound in manufacturing investment has been laid in the early stages of the economic recovery. This improvement in corporate fundamentals, along with a steady economic outlook and an expected global demand boost, should support corporate capex and manufacturing FAI. One concern is that the underlying trend in manufacturing FAI has remained on the soft side in 1Q21, declining 2.3% per annum on average compared to 1Q19. Thus, we will closely watch the manufacturing FAI data to determine whether the private sector investment recovery theme for this year is gaining traction.

Hong Kong: March trade activity beat expectations; exports grew 26.4%oya

Hong Kong's March trade activity beat market expectations on strong underlying growth momentum. Exports dropped 4.6%*m/m*, *sa*, partially reversing February's 11.5% gain to stand 26.4% above the March 2020 reading (Figure 1). In 1Q21, exports posted solid 33.3%*oya* growth with a strong underlying trend at 70.6%*3m/3m*, *sa*, and aided by base effects from pandemic-related weakness in 2020. Imports grew 21.7%*oya* on a marginal 1.0%*m/m*, *sa* decline, while trend growth stayed solid at 52.0%*3m/3m*, *sa*. As a result, Hong Kong recorded a HK\$27.0 billion trade deficit in March.

Figure 4: Hong Kong merchandise trade

%*oya*, 3mma



Source: HK C&SD, J.P. Morgan

The stronger-than-expected trade activity in 1Q is encouraging and we expect the global economy to stage a strong rebound from 2Q onwards, which would continue to boost the domestic economy and trade sector. The city's government has announced an easing in social-distancing rules on "vaccine bubble" arrangements, and the "travel bubble" with Singapore will resume as early as mid-May, which will benefit the tourism sector. We expect such arrangements will speed up the city's vaccination progress in the coming few weeks. But downside risk remains given the recent moderation in

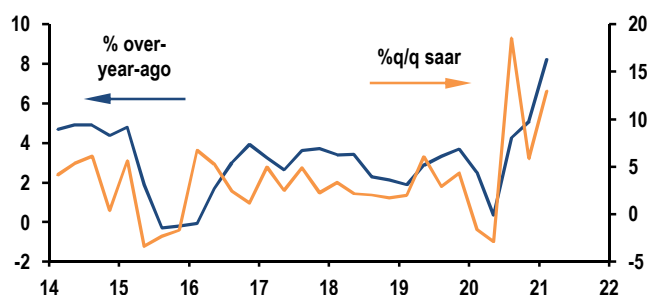
export activity of the city's major trading partners, which may slow trade growth momentum ahead.

Taiwan: GDP grew 8.16%oya in 1Q21, led by exports and capex

Taiwan's advance report of 1Q21 GDP beat expectations again, with real GDP increasing 8.16%*oya* (or 12.93%*q/q*, *saar*), the fastest growth since 4Q10, following a solid 5.09%*oya* gain (5.84%*q/q*, *saar*) in 4Q20 (Figure 5). The details highlight further significant export growth and acceleration in fixed investment, while the pace of recovery in private consumption moderated somewhat. Exports of goods and services surged 47.9%*q/q*, *saar* in 1Q21, adding to the 13.4% gain in 4Q20. Imports also surged by 45.2% in 1Q21, following strong 21.6% growth in 4Q20. Private consumption expenditure growth moderated to 1.3% from 3.0% in 4Q20. Meanwhile, corporate capex gained momentum, with domestic fixed investment leaping 33.6%*q/q*, *saar* in 1Q21, adding to the 9.6% rebound in 4Q20.

Figure 5: Taiwan real GDP growth

% change, both scales



Source: DGBAS, J.P. Morgan

Taiwan's export sector and industrial momentum may have moderated into early 2Q as hinted by the latest export orders report. In particular, WFH-related tech demand should ease with the reopening of the major economies, while manufacturing capacity constraints may temper further expansion in Taiwan's industrial activity. Meanwhile, the outlook for a significant recovery in the global economy, along with sustained, structural demand strength in various tech sectors, should provide solid support for Taiwan's export activity further out, with feedthrough to the domestic economy in the form of corporate capex and private consumption. Overall, we expect Taiwan's GDP growth to moderate to a still-solid 4.8%*q/q*, *saar* in 2Q21, followed by a further pickup to 6.0% in 3Q. Considering the stronger-than-expected 1Q21 GDP report, we have revised up our full-year 2021 GDP growth forecast to 8.0%*y/y* (from 6.6%).

China:**Data releases and forecasts****Week of May 3 - 7**

Fri	FX reserves				
May 7	US \$tr				
9:00am		Jan	Feb	Mar	Apr
	Foreign reserves	3.21	3.20	3.17	<u>3.20</u>
Fri	Merchandise trade				
May 7	US\$ bn				
		Jan	Feb	Mar	Apr
	Balance	65.4	37.9	13.8	<u>30.1</u>
	Exports	264.0	204.9	241.1	<u>255.0</u>
	%oya	24.8	154.9	30.6	<u>27.8</u>
	Imports	198.6	167.0	227.3	<u>224.9</u>
	%oya	26.6	17.3	38.2	<u>45.6</u>

Review of past week's data**Purchasing managers index (30 Apr)**

Index	Feb	Mar	Apr	
Overall (Markit)	50.9	50.6	<u>50.7</u>	51.9
Output	51.9	51.8	<u>52.6</u>	52.6
Overall (NBS)	50.6	51.9	<u>51.8</u>	51.1
Output	51.9	53.9	<u>52.2</u>	52.2

Hong Kong SAR:**Data releases and forecasts****Week of May 3 - 7**

Mon	Real GDP				
May 3	% change				
4:30pm		20Q2	20Q3	20Q4	21Q1
	%oya	-9.0	-3.6	-3.0	<u>3.8</u>
	%q/q, saar	-0.3	11.4	0.7	<u>3.9</u>

Tue	Retail sales volume				
May 4	% change				
4:30pm		Dec	Jan	Feb	Mar
	%oya	-14.0	-14.6	31.7	<u>25.8</u>
	%m/m, sa	-2.7	-1.4	4.4	<u>1.0</u>

Review of past week's data**Merchandise trade (27 Apr)**

HK\$ bn	Jan	Feb	Mar	
Balance	-25.2	-14.7	<u>-60.3</u>	-27.0
Exports	388.0	311.1	<u>350.8</u>	409.1
%oya	44.0	30.4	<u>8.4</u>	26.4
Imports	413.2	325.8	<u>411.1</u>	436.1
%oya	37.7	17.6	<u>14.7</u>	21.7

Taiwan:**Data releases and forecasts****Week of May 3 - 7**

Mon	Markit manufacturing PMI				
May 3	Index, sa				
8:30am		Jan	Feb	Mar	Apr
	Overall	60.2	60.4	60.8	<u>60.5</u>
	Output	58.8	59.2	59.9	<u>—</u>
Thu	Consumer prices				
May 6	% change				
4:00pm		Jan	Feb	Mar	Apr
	%oya	-0.2	1.4	1.3	<u>1.9</u>
	%m/m, sa	0.6	0.0	0.1	<u>0.2</u>
Fri	Merchandise trade				
May 7	US\$bn				
4:00pm		Jan	Feb	Mar	Apr
	Balance	6.2	4.5	3.7	<u>3.2</u>
	Exports	34.3	27.8	35.9	<u>31.8</u>
	%oya	36.8	9.7	27.1	<u>26.1</u>
	Imports	28.1	23.3	32.2	<u>28.6</u>
	%oya	29.9	5.7	27.0	<u>25.4</u>

Review of past week's data**Real GDP (30 Apr)**

% change	20Q3	20Q4	21Q1	
%oya	4.3	5.1	<u>7.2</u>	8.2
%q/q, saar	18.5	5.8	<u>7.0</u>	12.9

Source: NBS, China Customs, Hong Kong Census and Statistics Department, Taiwan Ministry of Economic Affairs, DGBAS, MoF, J.P. Morgan forecasts

Korea

- **Upside surprise in 1Q real GDP, we now see higher 2021 annual growth**
- **IP took an expected breather, signaling a growth moderation in 2Q**

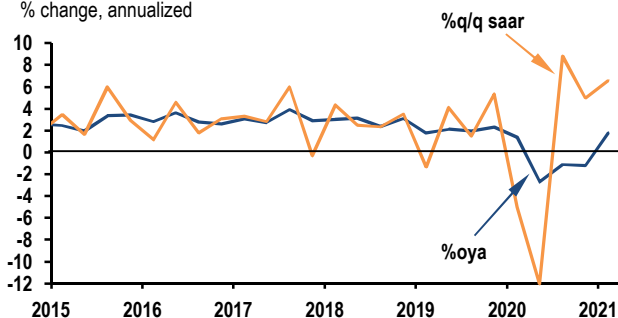
This week's Korean macroeconomic data were generally upbeat. In 1Q21, real GDP grew much more strongly than expected, consumer sentiment index recovered most of the way to the pre-pandemic level in April, while March IP took an expected breather. As we highlighted last week, after the strong 1Q results, sequential growth may moderate in 2Q, as hinted by the April flash exports data, and as private consumption likely has been frontloaded to 1Q. Thus we trimmed our 2Q-3Q GDP projections. That said, we now see stronger 2021 growth at 4.6%/y/y, up from 4.1% in our previous forecast and well above the current market consensus at 3.5%, based on our long-standing view that Korea should benefit from the global goods demand recovery this year.

Stronger-than-expected 1Q outcome; growth likely front-loaded

Korea's real GDP grew 6.6%/q/q, saar in 1Q21 beating expectations and sustaining brisk quarterly growth since 3Q20 (Figure 1). The strong 1Q growth was broad-based across demand components and production activity, broadly exceeding our projections as both exports and domestic demand rose firmly. Private consumption growth rebounded from the drags due to the resurgence of COVID-19 from November 2020 to January 2021; fixed investment also rose robustly led by a surge in equipment investment. On the production side, strong external demand has fueled manufacturing production, and services GDP growth shows no drag from the COVID-19 resurgence in early 1Q, likely reflecting the smart recovery later in the quarter.

Figure 1: Real GDP

% change, annualized



We expect the sturdy growth momentum to continue. Strong external demand and supply-side bottlenecks should continue

to drive robust capex growth through this year; we note that real exports and manufacturing production are on track for strong full-year growth at about 13%/y/y and 9%, respectively. We expect service-sector growth to strengthen in 2H21 with the wider deployment of vaccines and diminishing drags from virus contagion fears, and with a gradual recovery in employment.

That said, more modest growth in 2Q may follow the upside surprise in 1Q. Flash reports on customs trade hinted that sequential exports growth is poised to slow in 2Q, taking a technical breather, and automobile production may be dragged down by temporary shortages of parts during the quarter. Also, the strong 1Q private consumption growth suggests that pent-up consumption demand (that we had assumed previously would be unleashed in 2H) was front-loaded somewhat into 1H. Against this backdrop, we lowered our GDP growth forecast for 2Q from 4.0%/q/q, saar to 3.0% and for 3Q from 9.0% to 7.0%. In all, the stronger-than-expected 1Q outcome and lowered forecast path for 2Q-3Q push up full-year 2021 GDP growth to 4.6%/y/y from 4.1% in our previous forecast. Risks to this outlook include a more delayed vaccine deployment than the baseline or weaker-than-expected spillover from trading partners' expected demand pickup. The vaccine has been administered to only about 5% of the population, yet the pace is still broadly in line with the government's target at least through April; vaccine deployment should speed up from May-June.

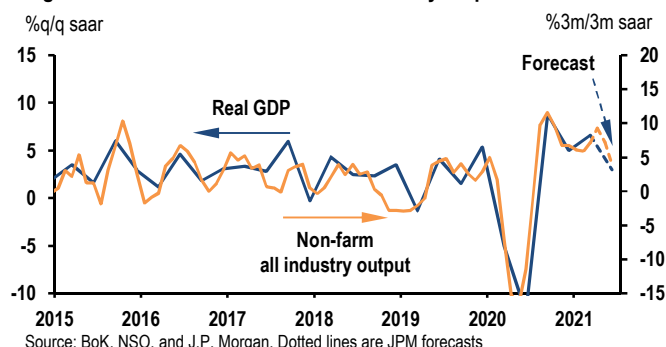
IP took a breather in March as expected

Industrial production declined 0.8%/m/m, sa in March, taking a breather after a 4.4% jump in February. Tech output grew 2.6%/m/m, sa on top of a 4.3% gain in February, led by a 4.3% increase in semiconductor production. Semiconductors should continue to lead the robust tech production gains, boosted by buoyant global demand for key tech parts amid semiconductor supply shortages. Meanwhile, non-tech production dropped 1.7% after a 5.0% gain in February, notably as automobile production fell 4.8% and related non-tech sectors experienced a correction. Anecdotal media reports suggest that the automobile production disruption extended into April due to semiconductor parts shortages and is likely to continue in May, which should contribute to a moderation in non-tech production growth in 2Q.

Non-manufacturing activity was strong in March. Services production rose strongly further, by 1.2%/m/m, sa following a 1.1% bounce in February (after falling in December-January with the COVID-19 resurgence), to grow 2.6%3m/3m, saar on trend. The strong gain in services activity was due to gains in accommodation and restaurant services, leisure, and transportation, fueled by a rise in mobility. Aggregating manufacturing and non-manufacturing industries, non-farm all-

industry output rose 0.8%/m, sa following a 2.1% gain in February, accelerating to 7.1%3m/3m, saar (Figure 2). The details suggest a moderation in IP growth in 2Q, in line with our new 2Q real GDP growth outlook at 3.0%/q, saar.

Figure 2: Real GDP and non-farm all industry output



Data releases and forecasts

Week of May 1 – 7

Sat Customs trade

May 1	US\$ bn, nsa				
9:00am		Jan	Feb	Mar	Apr
	Trade balance	3.8	2.5	4.1	<u>3.0</u>
	Exports	48.0	44.7	53.8	<u>53.8</u>
	Imports	44.3	42.2	49.7	<u>50.8</u>

Mon Purchasing Managers Index

May 3	Index, sa				
9:30am		Jan	Feb	Mar	Apr
	PMI - Manufacturing	53.2	55.3	55.3	<u>55.0</u>

Tue Consumer prices

May 4	% change				
8:00am		Jan	Feb	Mar	Apr
	%oya	0.6	1.1	1.5	<u>2.2</u>
	%m/m, nsa	0.8	0.5	0.1	<u>0.1</u>

Fri Current account

May 7	US\$ bn, nsa				
8:00am		Dec	Jan	Feb	Mar
	Balance	11.5	7.1	8.0	<u>7.6</u>

Review of past week's data

Real GDP 1st estimate (Apr 27)

% change				
	3Q20	4Q20	1Q21	
%q/q, sa	2.1	1.2	<u>0.7</u>	1.6
%q/q, saar	8.8	5.0	<u>3.0</u>	6.6
%oya	-1.1	-1.2	<u>0.9</u>	1.8

Consumer survey (Apr 28)

100=neutral reading, nsa

	Feb	Mar	Apr	
Index	97.4	100.5	<u>102.0</u>	102.2

Consumer sentiment rose 1.7pts to 102.2 in April for the fourth monthly gain. The index has fully returned to pre-pandemic levels. Strong economic conditions and a stock market rally have contributed to the improvement in sentiment. Notably, sentiment remained resilient in April even in the face of rising infections, implying that consumers have already adjusted to the prolonged pandemic and turned less sensitive to contagion news.

FKI business survey (Apr 29)

Index, sa

	Feb	Mar	Apr	
One-month outlook	107.2	108.4	<u>109.0</u>	106.7
Current conditions	106.4	108.8	<u>109.0</u>	

Industrial production (Apr 30)

% change

	Jan	Feb	Mar	
%oya	7.8	0.9	<u>5.4</u>	4.7
%m/m, sa	-1.2	<u>4.3</u>	4.4	<u>0.1</u>

Producer shipments and inventories (Apr 30)

%oya

	Jan	Feb	Mar	
Shipments	<u>8.8</u>	8.7	<u>4.2</u>	1.3
Inventories	-1.7	-2.6	<u>-1.0</u>	-3.5

Composite leading indicator (Apr 30)

2015=100, sa

	Jan	Feb	Mar	
Index	124.1	<u>124.7</u>	124.8	<u>125.3</u>

Service activity (Apr 30)

% change

	Jan	Feb	Mar	
%oya	-1.8	0.7	<u>7.0</u>	7.8

Consumption goods sales (Apr 30)

% change

	Jan	Feb	Mar	
%oya	0.0	<u>8.4</u>	8.3	<u>11.8</u>
%m/m, sa	1.6	-0.8	<u>2.9</u>	2.3

Source: Customs office, Markit, BoK, FKI, NSO, and J.P. Morgan forecasts

ASEAN

- **Solid 1Q21 prompts upward revision to Singapore's 2021 real GDP growth to 7.8%oya from 5.7%**
- **Strong COVID-19 management measures prompt us to pencil in a stronger recovery in 2021 than prior baseline**
- **Core inflation could rise faster than forecast, raising risk of an October 2021 MAS move**
- **Real estate prices have outstripped income growth and could prompt macroprudential tightening measures**

Following the release of the stronger-than-expected flash estimate of 1Q21 Singapore GDP, we have raised our 2021 real GDP growth forecast to 7.8%oya from 5.7%. The 1Q21 growth in activity owes in part to the firming of external demand and also to firming domestic activity amid low new COVID-19 case counts and the gradual normalization of economic life that has followed. Our prior baseline had penciled in periodic spikes in cases and this has not materialized; given Singapore's management of COVID-19, we now expect that cases could remain low through 2021, prompting a relatively uninterrupted recovery.

Given the strength of the 1Q21 GDP outturn and stronger recovery path for the rest of the year could come in stronger than forecast. If so, it would raise the possibility of an earlier MAS move in 4Q21 even as our baseline pencils in a move in 1H22.

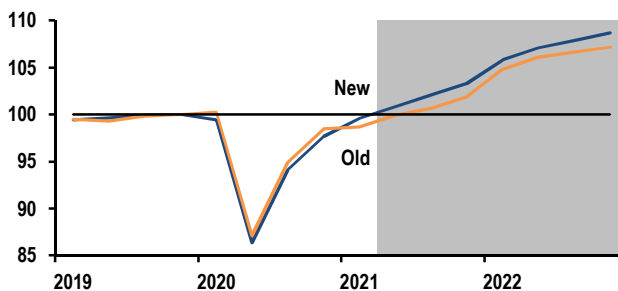
Solid 1Q21 flash GDP and benign COVID-19 trajectory lift GDP path

Given the strong 1Q21 outturn, we expect growth this year to surpass the prior official 4%-6%oya growth range and to be revised up with the release of the 1Q21 GDP data in May. While the growth revision owes primarily to the 1Q21 outcome, we have also revised up 2Q21 and 3Q21 growth to 5%q/q, saar, from 5% and 3% previously. This revision reflects the view that the hitherto low COVID-19 case count should continue through this year, thus permitting a steadier path of recovery than in the prior forecast (Figures 1 and 2).

By sector, manufacturing has led the recovery over the past year, while construction continues to recover following the increase in mobility after the circuit-breaker measures in 2Q20. The services sector, though recovering in 2H20, has stalled in 1Q21 likely reflecting weakness in the travel- and hospitality-related sectors (Figure 3). However, as cross-border travel normalizes later this year, we expect activity to accelerate.

Figure 1: Singapore real GDP index

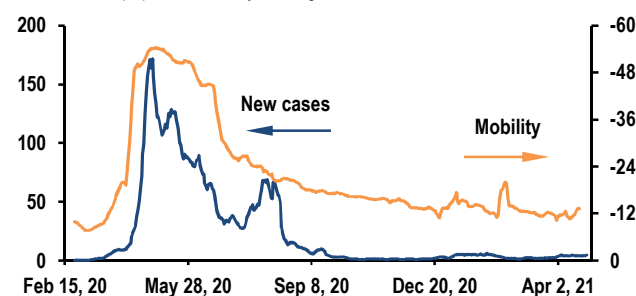
Index, 4Q19=100, sa



Source: MTI and J.P. Morgan forecasts in shaded area

Figure 2: Singapore new COVID-19 cases and mobility

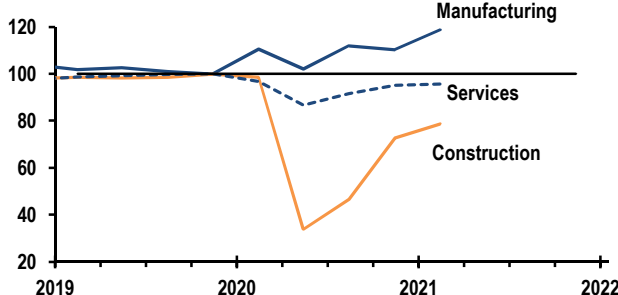
Persons/mn. population, 7-day moving ave. % deviation from baseline



Source: WHO and Google derived mobility data

Figure 3: Singapore real GDP

Index, 4Q19=100, sa



Source: MTI

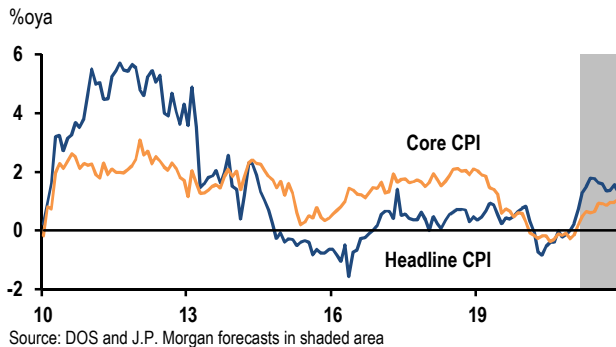
Core CPI path in focus, rising risk of an October MAS move

Although 1Q21 activity came in on the strong side, the official core inflation forecast for this year is expected to come in between 0 and 1%oya (J.P. Morgan: 0.5%oya), unchanged from the previous estimate. However, headline CPI inflation is expected to range between 0.5%oya and 1.5% (J.P. Morgan: 1.1%) from -0.5% to 0.5% previously (Figure 4).

Indeed, given the benign inflation path, which in our view is a key input into the MAS's reaction function, amid a still tentative recovery, the MAS kept its policy stance unchanged at its biannual meeting, as broadly expected. However, given the

strength of the 1Q21 GDP outturn and stronger recovery path for the rest of the year amid low case counts and supportive external demand, the risk is that domestic price pressures—gauged proximately via employment and industrial rentals—could come in stronger than forecast. If so, it would raise the risk of an earlier MAS move in 4Q21 even as our baseline pencils in a move in 1H22.

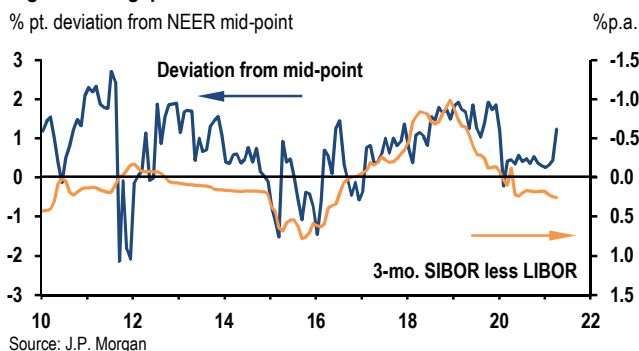
Figure 4: Singapore CPI



Interest parity framework leaves macroprudential measures in focus

Indeed, following the MAS meeting and expectations for a firmer GDP trajectory, the SGD NEER has moved to 120bp above our estimated midpoint of the policy band and is at its highest level since the March 2020 MAS easing. We believe this reflects the market's expectation that MAS tightening is no longer far away (Figure 5).

Figure 5: Singapore NEER and 3-mo. interbank rate

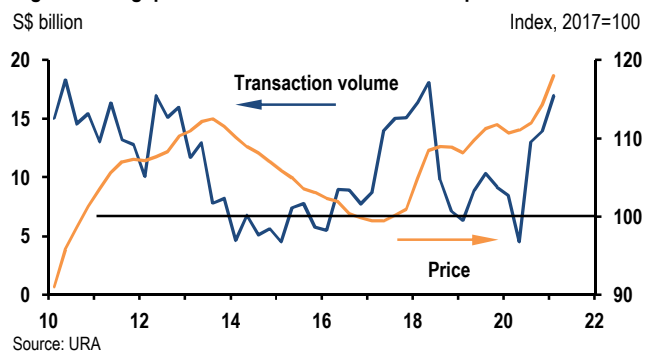


Moreover, given interest parity conditions, any expectation of a stronger currency implies that onshore rates in Singapore are not expected to move up anytime soon and indeed could lag the rate normalization among its trading partners. With the interest rate channel unlikely to tighten anytime soon, this thus leaves the management of real estate prices to macroprudential rather than monetary measures.

Watching the residential cost to income ratio

The unusual nature of the COVID-19 shock has had a variegated impact on the economy, with some sectors less affected than others with its asymmetric income spillovers to households and thus sentiment. Moreover, with rates back at historical lows, this has created an [environment conducive to real estate price appreciation](#). In Singapore's, residential real estate prices have risen anew, especially in 1Q21, accompanied by a surge in transaction volumes (Figure 6).

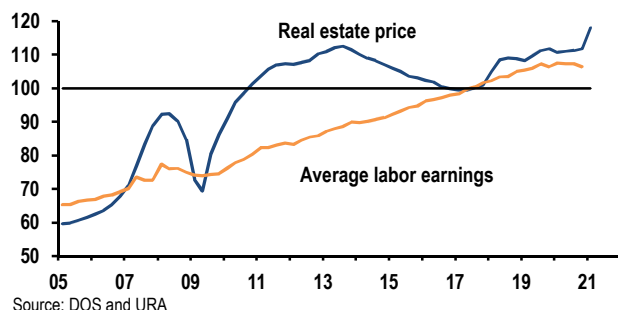
Figure 6: Singapore real estate transactions and price



This rise has run ahead of gains in average nominal income and has likely prompted an increase in the cost to income ratio in 1Q21 (Figure 7).

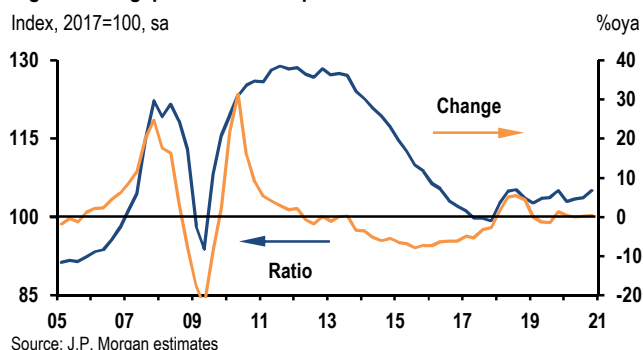
Figure 7: Singapore private real estate price and average earnings

Index, 2017=100, sa, S\$ terms



Given the importance of residential real estate for welfare and wealth distribution, rising real estate prices have prompted a keen policy focus on residential affordability. Thus, we cannot rule out a tightening macroprudential measures in the real estate sector, though this has to be balanced against the still nascent recovery in private construction. Indeed, through these measures, Singapore has realigned the cost-to-income ratio lower between 2013 and 2017 (Figure 8). Singapore has one of the widest ranges of policy tools in the region to manage the real estate sector, including loan limits to real estate and debt service limits for households, complemented by transaction taxes and duties.

Figure 8: Singapore real estate price to income



ASEAN

Indonesia

Data releases and forecasts

Week of May 3-7

Wed	Real GDP				
May 5	% change				
11:00am		2Q20	3Q20	4Q20	1Q21
	%oya	-5.3	-3.5	-2.2	<u>-0.3</u>
	%q/q, saar	-24.9	14.1	10.7	<u>4.0</u>

Review of past week's data

No data released.

Malaysia

Data releases and forecasts

Week of May 3-7

Thu	BNM monetary policy meeting				
May 6	% pa				
		Feb	Mar	Apr	May
	Overnight policy rate	1.75	1.75	1.75	<u>1.75</u>

Review of past week's data

Merchandise trade (Apr 28)

US\$ bn nsa					
	Jan	Feb	Mar		
Trade balance	4.1	4.4	<u>4.2</u>	5.9	
Exports, %oya	7.7	21.0	<u>21.6</u>	36.9	
Imports, %oya	2.4	16.0	<u>18.3</u>	24.6	

While the details of the exports release are usually released sometime later, the breakdown from February confirms that tech-related exports remain firmly above pre-COVID-19 levels with non-electronic exports also bouncing back. More broadly, high-frequency indicators point to a solid external-sector-led growth recovery even as the services sector lags, a trend that likely will continue given the varying degrees of lockdown measures across the country and international border closures. While we acknowledge the recent slew of positive economic data, we are inclined to first evaluate how the recent rise in cases may have knock-on implications for domestic activity and

dampen the overall growth outlook, before penciling in a hike in the OPR.

Philippines

Data releases and forecasts

Week of May 3-7

Wed	Consumer prices				
May 5	% change				
9:00am		Jan	Feb	Mar	Apr
	Total, %oya	4.2	4.7	4.5	<u>4.6</u>
	%m/m, sa	1.0	0.2	0.0	<u>0.2</u>
Fri	Merchandise trade				
May 7	US\$ bn, nsa				
9:00am		Dec	Jan	Feb	Mar
	Trade balance	-2.5	-2.9	-2.3	<u>-2.6</u>
	Exports, %oya	1.6	-4.8	-2.2	<u>17.1</u>
	Imports, %oya	-4.7	-12.1	2.7	<u>9.6</u>

Review of past week's data

No data released.

Singapore

Data releases and forecasts

Week of May 3-7

Mon	Purchasing managers index				
May 3	Index				
9:00pm		Jan	Feb	Mar	Apr
	PMI	50.7	50.5	50.8	<u>51.0</u>
	PMI—electronics	51.0	50.8	50.6	<u>50.8</u>

Review of past week's data

Industrial production (Apr 26)

% change					
	Jan	Feb	Mar		
%oya	9.2	16.4	<u>1.2</u>	7.6	
%m/m, sa	4.3	1.6	<u>1.6</u>	-1.7	

The primary driver of January's industrial production was biomedical output, which rose 62.0%/m/m, sa. This sector tends to be unusually volatile month-to-month. Non-biomedical output was down 7.1%/m/m, sa, while electronics output firmed 7.2%/m/m, sa, due to semiconductors. Production excluding biomedical and electronics tends to be a useful bellwether of broader capital spending and this appears to be moderating into 2Q21 following a notably strong run since 3Q20.

Thailand

Data releases and forecasts

Week of May 3-7

Wed	Consumer prices				
May 5	% change				
10:30am		Jan	Feb	Mar	Apr
	Total, %oya	-0.3	-1.2	-0.1	<u>2.5</u>
	%m/m, sa	0.1	-0.9	0.2	<u>0.2</u>
Wed	BoT monetary policy meeting				
May 5	% pa				
		Feb	Mar	Apr	May
	1-day repo	0.50	0.50	0.50	<u>0.50</u>

Review of past week's data

Private investment index (Apr 30)

% change				
	Jan	Feb	Mar	
%oya	3.1	6.9	<u>10.0</u>	5.5
%m/m, sa	-0.6	0.8	<u>3.1</u>	-0.8

Private consumption index (Apr 30)

% change				
	Jan	Feb	Mar	
%oya	-7.2	-3.5	<u>4.6</u>	2.3
%m/m, sa	-3.5	3.4	<u>3.2</u>	1.0

Merchandise trade (Apr 30)

% change				
	Jan	Feb	Mar	
Trade balance	1.9	2.1	<u>1.7</u>	3.4
Exports, %oya	-0.3	-0.2	<u>8.6</u>	15.8
Imports, %oya	-6.9	23.9	<u>16.1</u>	15.1

The overriding near-term macroeconomic narrative in Thailand revolves around the recent rise in COVID-19 cases, with April infections recording the highest levels in the past year, and subsequent mobility restrictions. This resurgence is a reminder of the pernicious nature of the virus and its interaction with the macro forecasts. We had previously penciled in a gradual opening of cross-border travel in 2H21, culminating in a strong finish to 4Q21 as tourism—accounting for around 12%-15% of GDP—resumes. However, the recent rise in cases suggests that this prior forecast is too optimistic and our revised 2021 GDP forecast (3.9%oya) is now more aligned to that of the MOF (2.3%oya) and BOT (3%oya, we think likely to be reduced at the May 5 review).

Vietnam

Data releases and forecasts

Week of May 3-7

No data releases.

Review of past week's data

No data released.

Source: Central Bureau of Statistics, Indonesia; Department of Statistics, Malaysia Coordination Board and National Statistics Office, Philippines, Singapore Statistics Department, Office for Industrial Economics, Thailand; Bank of Thailand; General Statistics Office of Vietnam; J.P. Morgan forecasts

India

- Activity indicator fell by 20% from mid-February peak on lockdowns
- Mobility, employment, and power demand all fell significantly
- Vaccine hesitancy declined in states with larger COVID-19 impact
- Positivity rate stabilizing in states with restrictions

Activity indicator plunged 20% from peak

J.P. Morgan's weekly activity tracker (JPAT) has fallen about 20% since peaking in mid-February, and currently stands close to 80% of the pre-pandemic level (Figure 1). Underpinning the drop are the rolling lockdowns across the economy to contain the proliferation of COVID-19. Mobility has fallen sharply; since February Google retail and recreation mobility is down 25% and grocery and pharmacy mobility is down 10% (Figure 2). Apple driving mobility is down more starkly, falling close to 50% since February.

Figure 1: J.P. Morgan composite activity tracker (JPAT)

Index, Feb, 2020=100

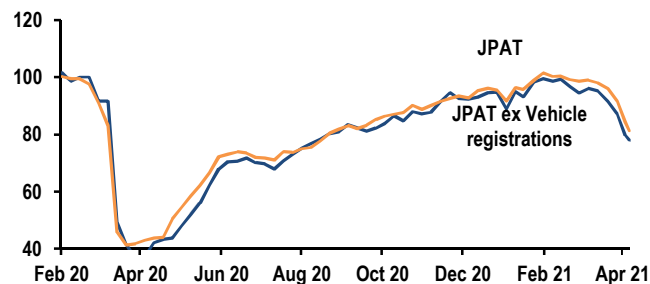
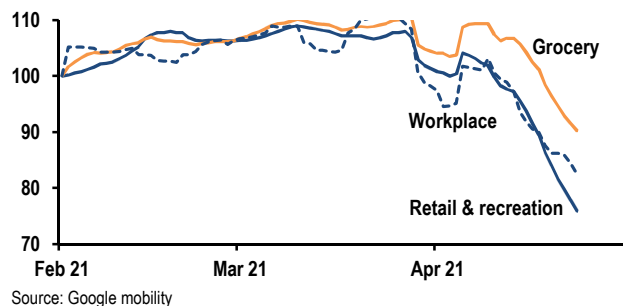


Figure 2: India Google mobility

1 Feb, 2021 = 100, 7D MA

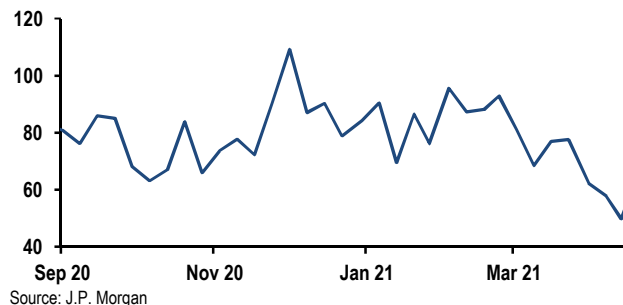


Other daily indicators like power demand and vehicle registrations have also fallen meaningfully. Daily vehicle registrations peaked in mid-February at close to 90% of the pre-pandemic level and have now fallen to below 60% of that

level (Figure 3). Our activity tracker includes Google and Apple mobility, vehicle registrations, the employment rate, and power consumption. The weight given to each indicator is derived through principal component methodology. Anticipating lockdowns and a hit to activity we have already cut our 2Q GDP forecast.

Figure 3: Vehicle registrations

Index, sa, Feb, 2020=100

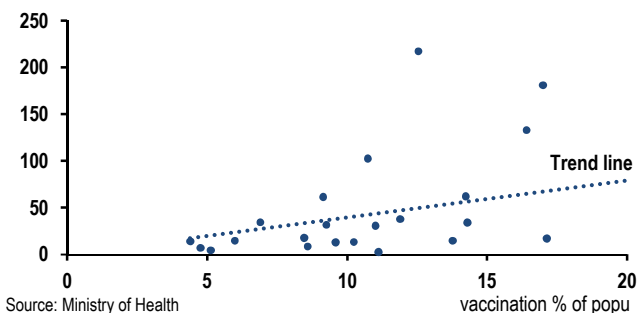


Vaccinations rise in states with larger COVID impact

In aggregate India's vaccination pace has slowed, but a deeper dive into data across states reveals that increased mortality is likely reducing vaccine hesitancy. Figure 4 plots the percent of population that has taken the first dose in each state with deaths per million in April. As the chart reveals, there is a positive correlation between the two: states that have experienced higher mortality in April (deaths/million) are seeing a higher percent of the population vaccinated, likely reflecting an increased propensity to get vaccinated.

Figure 4: Vaccine first dose and deaths

deaths per million in April

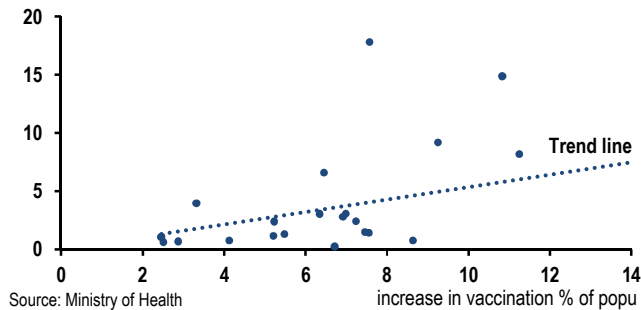


The same positive correlation holds when changes in deaths/million across April are plotted with changes to the percent of population vaccinated (Figure 5). Prima facie, this suggests higher mortality is reducing hesitancy. Of course, this assumes that supply is not an enduring binding constraint, i.e., that when doses are exhausted in a state, they are being replenished with no systematic delays. Over time, we would expect the causation to reverse; once critical thresholds of

vaccination are reached, we would expect higher vaccinations to correlate with lower mortality. For now, however, if this trend continues and vaccine hesitancy abates, the urgency of easing binding supply constraints will only increase.

Figure 5: Change in vaccine first dose and deaths (since April 1st)

increase in deaths per million

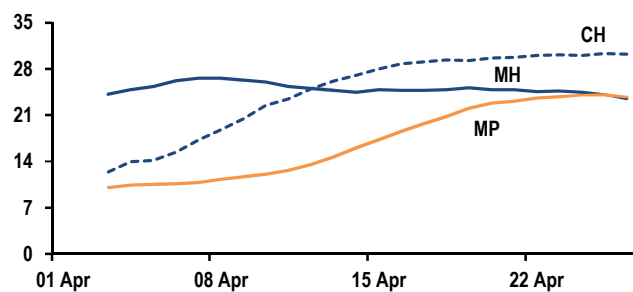


Lockdowns begin to have some impact

While there has been some stabilization in aggregate COVID-19 cases, it masks underlying rotation of stress across states. The states that put on curbs relatively early (e.g., Maharashtra, Chhattisgarh, Madhya Pradesh, Figure 6) are seeing their positivity ratios falling/stabilizing in recent days; other states have seen a continued surge in positivity rates (e.g., Karnataka, UP, West Bengal) and are becoming the new hotspots, triggering the imposition of more curbs; Delhi remains the epicenter of stress despite current restrictions.

Figure 6: Positivity ratio

7Days MA, confirmed cases per 100 test



Data releases and forecasts

Week of May 3 – 7

Mon May 3	Manufacturing PMI			
	Sa	Jan	Feb	Mar
	Index	57.7	57.5	55.4

Wed May 5	Composite PMI			
	Sa	Jan	Feb	Mar
	Index	55.8	57.3	56.0

Review of past week's data

No data released.

Source: Central Statistical Organization, RBI, Ministry of Commerce, IHS-Markit, and J.P. Morgan forecasts

US economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
3 May Manufacturing PMI (9:45am) Apr final <u>60.8</u> ISM manufacturing (10:00am) Apr <u>64.5</u> Construction spending (10:00am) Mar <u>0.9%</u> Senior loan officer survey (2:00pm) 2Q Light vehicle sales Apr <u>18.0mn</u> Fed Chair Powell speaks (2:20pm)	4 May International trade (8:30am) Mar <u>-\$74.1bn</u> Factory goods (10:00am) Mar <u>1.8%</u> Dallas Fed President Kaplan speaks (1:00pm) San Francisco Fed President Daly speaks (1:00pm)	5 May ADP employment (8:15am) Apr Services PMI (9:45am) Apr final <u>63.3</u> ISM services (10:00am) Apr <u>64.0</u> Announce 10-year note <u>\$41bn</u> Announce 30-year bond <u>\$27bn</u> Announce 3-year note <u>\$58bn</u> Chicago Fed President Evans speaks (9:30am) Cleveland Fed President Mester speaks (12:00pm)	6 May Initial claims (8:30am) w/e May 1 <u>525,000</u> Productivity and costs (8:30am) 1Q prelim <u>1.8%</u> Unit labor costs <u>0.1%</u> Dallas Fed President Kaplan speaks (10:00am) Cleveland Fed President Mester speaks (1:00pm)	7 May Employment (8:30am) Apr <u>1.0mn</u> Unemployment rate <u>5.8%</u> Average weekly hours <u>34.8</u> Wholesale trade (10:00am) Mar Consumer credit (3:00pm) Mar
10 May	11 May NFIB survey (6:00am) Apr JOLTS (10:00am) Mar Auction 3-year note <u>\$58bn</u> Fed Governor Brainard speaks (12:00pm)	12 May CPI (8:30am) Apr Federal budget (2:00pm) Apr Auction 10-year note <u>\$41bn</u> Fed Vice Chair Clarida speaks (9:00am)	13 May Initial claims (8:30am) w/e May 8 PPI (8:30am) Apr Announce 10-year TIPS (r) <u>\$13bn</u> Announce 20-year bond <u>\$27bn</u> Auction 30-year bond <u>\$27bn</u> St. Louis Fed President Bullard speaks (4:00pm)	14 May Retail sales (8:30am) Apr Import prices (8:30am) Apr Industrial production (9:15am) Apr Business inventories (10:00am) Mar Consumer sentiment (10:00am) May preliminary Dallas Fed President Kaplan speaks (1:00pm)
17 May Empire State survey (8:30am) May NAHB survey (10:00am) May TIC data (4:00pm) Mar	18 May Housing starts (8:30am) Apr Business leaders survey (8:30am) May	19 May Auction 20-year bond <u>\$27bn</u> FOMC minutes	20 May Initial claims (8:30am) w/e May 15 Philadelphia Fed manufacturing (8:30am) May Leading indicators (10:00am) Apr QSS (10:00am) 1Q adv Announce 2-year FRN (r) <u>\$26bn</u> Announce 2-year note <u>\$60bn</u> Announce 5-year note <u>\$61bn</u> Announce 7-year note <u>\$62bn</u> Auction 10-year TIPS (r) <u>\$13bn</u>	21 May Manufacturing PMI (9:45am) May flash Services PMI (9:45am) May flash Existing home sales (10:00am) Apr
24 May	25 May Philadelphia Fed nonmanufacturing (8:30am) May FHFA HPI (9:00am) Mar, 1Q S&P/Case-Shiller HPI (9:00am) Mar Consumer confidence (10:00am) May New home sales (10:00am) Apr Richmond Fed survey (10:00am) May	26 May Auction 2-year note <u>\$60bn</u>	27 May Initial claims (8:30am) w/e May 22 Durable goods (8:30am) Apr Real GDP (8:30am) 1Q second Pending home sales (10:00am) Apr KC Fed survey (11:00am) May Auction 2-year FRN (r) <u>\$26bn</u> Auction 5-year note <u>\$61bn</u>	28 May Personal income (8:30am) Apr Advance economic indicators (8:30am) Apr Chicago PMI (9:45am) May Consumer sentiment (10:00am) May final Auction 7-year note <u>\$62bn</u>

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Euro area economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
3 May Euro area: PMI mfg final (10:00am) Apr <u>63.3</u> Germany: Retail sales (8:00am) Mar <u>6.0%/m/m</u> PMI mfg final (9:55am) Apr <u>66.4</u> France: PMI mfg final (9:50am) Apr <u>59.2</u> Italy: PMI mfg final (9:45am) Apr Spain: PMI mfg final (9:15am) Apr	4 May France: Monthly budget situation (8:45am) Mar	5 May Euro area: PMI serv. & comp (10:00am) Apr <u>Services: 50.3</u> <u>Composite: 53.7</u> PPI (11:00am) Mar Germany: PMI serv. & comp (9:55am) Apr <u>Services: 50.1</u> <u>Composite: 56.0</u> France: PMI serv. & comp (9:50am) Apr <u>Services: 50.4</u> <u>Composite: 51.7</u> Italy: PMI serv. & comp (9:45am) Apr Spain: PMI serv. & comp (9:15am) Apr	6 May Euro area: Retail sales (11:00am) Mar <u>2.4%/m/m, sa</u> MFI interest rates (10:00am) Mar Germany: Mfg orders (8:00am) Mar <u>Total: -0.5%/m, sa</u> <u>Total ex bulk orders: -0.5%/m</u>	7 May Germany: Foreign trade (8:00am) Mar Industrial production (8:00am) Mar <u>Industry incl constr: 3.0%/m, sa</u> <u>Industry ex constr: 2.0%/m, sa</u> <u>Manufacturing: 2.2%/m, sa</u> <u>Construction: 5.0%/m, sa</u> <u>Energy: 0.0%/m, sa</u> France: Foreign trade (8:45am) Mar Industrial production (8:45am) Mar <u>0.0%/m, sa</u>
10 May	11 May Germany: ZEW bus. survey (11:00am) May Italy: Industrial prod. (10:00am) Mar Netherlands: CPI (6:30am) Apr	12 May Euro area: Industrial prod. (11:00am) Mar Germany: CPI final (8:00am) Apr France: CPI final (8:45am) Apr	13 May	14 May Spain: CPI final (9:00am) Apr HICP final (9:00am) Apr
17 May Italy: CPI final (10:00am) Apr	18 May Euro area: Employment prelim (11:00am) 1Q Foreign trade (11:00am) Mar GDP final (11:00am) 1Q Italy: Foreign trade (10:00am) Mar	19 May Euro area: HICP final (11:00am) Apr Car registrations (8:00am) Apr	20 May Euro area: Balance of Payments (10:00am) Mar Construction output (11:00am) Mar Germany: PPI (8:00am) Apr	21 May Euro area: PMI mfg prelim (10:00am) May PMI serv. & comp (10:00am) May EC cons. Conf. flash (4:00pm) May Germany: PMI mfg prelim (9:30am) May PMI serv. & comp prelim (9:30am) May France: PMI mfg prelim (9:15am) May PMI serv. & comp prelim (9:15am) May Belgium: BNB cons. conf. (11:00am) May
24 May	25 May Germany: GDP final (8:00am) 1Q IFO bus. survey (10:00am) May	26 May France: INSEE bus. conf. (8:45am) May INSEE cons. conf. (8:45am) May	27 May Germany: GfK cons. conf. (8:00am) May Italy: ISAE bus. conf. (10:00am) May ISAE cons. conf. (10:00am) May	28 May Euro area: EC cons. Conf. (11:00am) May France: Cons. of mfg goods (8:45am) Apr CPI flash (8:45am) May GDP final (8:45am) 1Q PPI (8:45am) Apr Italy: PPI (10:00am) Apr Belgium: CPI (8:00am) Mar BNB bus. conf. (3:00pm) May Netherlands: CBS bus. conf. (6:30am) May

Highlighted data are scheduled for release on or after the date shown. Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Japan economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
3 May <i>Holiday: Japan</i>	4 May <i>Holiday: Japan</i>	5 May <i>Holiday: Japan</i>	6 May Minutes of Mar 18 • 19 BoJ Monetary Policy Meeting (8:50am) Auto registrations (9:30am) Apr Auction 6--month bill	7 May Employers' survey (8:30am) Mar <u>-0.3%oya</u> PMI services final (9:30am) Apr Auction 3--month bill
10 May	11 May All household spending (8:30am) Mar Summary of Opinions of Apr 26-27 BoJ Monetary Policy Meeting (8:50am) Auction 10-year note	12 May Consumption activity index (2:00pm) Mar Coincident CI prelim (2:00pm) Mar	13 May Bank lending (8:50am) Apr Current account (8:50am) Mar Economy watchers survey (2:00pm) Apr Auction 30-year note	14 May M2 (8:50am) Apr Auction 3--month bill
17 May Corporate goods prices (8:50am) Apr Auction 10-year note	18 May GDP prelim (8:50am) 1Q Tertiary sector activity index (1:30pm) Mar	19 May IP final (1:30pm) Mar Auction 1-year note Auction 5-year note	20 May Reuters Tankan (8:30am) May Private machinery orders (8:50am) Mar Trade balance (8:50am) Apr	21 May Nationwide core CPI (8:30am) Apr Construction spending (2:00pm) Mar PMI manufacturing prelim (9:30am) May PMI services prelim (9:30am) May Auction 3--month bill Auction 20-year note
During the week: CAO Auction 10-year note private consumption index Mar (17-21 May)				
24 May Auction 6--month bill	25 May	26 May Corporate service prices (8:50am) Apr	27 May Auction 40-year note	28 May Tokyo core CPI (8:30am) May Job offers to applicants ratio (8:30am) Apr Unemployment rate (8:30am) Apr Auction 3--month bill

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Canada economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
3 May Markit manufacturing PMI (9:30am) Apr	4 May International trade (8:30am) Mar <u>C\$1.1bil</u> Building permits (8:30am) Mar <u>7.0%</u>	5 May Governor Tiff Macklem appears before the Standing Senate Committee on Banking, Trade and Commerce by videoconference (6:30pm)	6 May	7 May Labor Force Survey (8:30am) Apr <u>-175,000 (-0.9%)</u> Unemployment rate <u>7.9%</u> Ivey PMI (10:00am) Apr <u>63.0</u> J.P. Morgan composite <u>62.6</u>
10 May	11 May	12 May	13 May Governor Tiff Macklem speaks to Atlantic Canadian universities by videoconference (11:00am)	14 May Manufacturing sales (8:30am) Mar Wholesale sales (8:30am) Mar New vehicle sales (8:30am) Mar Existing home sales (9:00am) Apr BoC Senior Loan Officer Survey (10:30am) 1Q
17 May Housing starts (8:15am) Apr International transactions in securities (8:30am) Mar	18 May	19 May CPI (8:30am) Apr Teranet/National Bank HP Index (8:30am) Apr	20 May New housing price index (8:30am) Apr Bank of Canada Financial System Review (10:30am) Press conference to follow	21 May Retail sales (8:30am) Mar
24 May <i>Victoria Day</i> <i>Markets closed</i>	25 May Quarterly financial statistics for enterprises (8:30am) 1Q	26 May	27 May CFIB Business Barometer index (6:00am) May Payroll employment (8:30am) Mar	28 May

Source: Private and public agencies and J.P. Morgan. Further details available upon request. All existing home sales are tentative.

Latin America economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
3 May Argentina: Tax Collections Apr Chile: Economic activity Mar 3.2%oya Mexico: Remittances Mar <u>USD\$4.1bn</u> IMEF manufacturing index Apr <u>51.1</u> IMEF nonmanufacturing index Apr <u>52.5</u>	4 May	5 May Brazil: IP Mar <u>-2.1%m/m</u> ; <u>8.5%oya</u> COPOM meeting May <u>3.50%</u> (<u>+75bp</u>) Colombia: CPI Apr <u>0.32%m/m</u> ; <u>1.68%oya</u> Uruguay: CPI Apr <u>0.53%m/m</u> ; <u>6.79%oya</u>	6 May Argentina: Industrial production Mar <u>18.0%oya</u>	7 May Brazil: IGP-DI Apr <u>1.54%m/m</u> ; <u>32.57%oya</u> Retail sales (broad) Mar <u>12.1%m/m</u> ; <u>6.0%oya</u> Chile: Trade balance Apr <u>US\$1.25bn</u> CPI Apr <u>0.32%m/m</u> ; <u>3.26%oya</u> Mexico: Biweekly core CPI Apr <u>0.08%2w/2w</u> ; <u>4.03%oya</u> Biweekly CPI Apr <u>0.02%2w/2w</u> ; <u>5.88%oya</u> Core CPI Apr <u>0.32%m/m</u> ; <u>4.08%oya</u> CPI Apr
During the week: Brazil: Vehicle sales Apr (6-7 May) <u>0.1%m/m</u> ; <u>2.58%oya</u> Brazil: Auto production Apr (6-7 May) Chile: Vehicle Sales Total Apr (7-12 May) Peru: CPI Apr (1 May)				
10 May	11 May Mexico: ANTAD same-store sales Apr GFI Feb Brazil: IPCA Apr	12 May Mexico: IP Mar Uruguay: Industrial production Mar Peru: Reference rate May	13 May Colombia: IP Mar Retail sales Mar Mexico: Banxico meeting May Argentina: CPI Apr Chile: Overnight Rate target May	14 May Uruguay: National Unemployment rate Mar Colombia: Trade balance Mar Economic Activity Mar GDP 1Q
During the week: Peru: Trade balance Mar (10-12 May)				
17 May Peru: Economic Activity Mar National Unemployment rate Apr	18 May Chile: Current Account Balance 1Q GDP 1Q	19 May	20 May Argentina: Budget balance Apr Economic activity Mar Peru: GDP 1Q	21 May Mexico: Retail sales Mar
During the week: Brazil: Tax collections Apr (20-25 May)				
24 May Paraguay: Monetary Policy Rate May Mexico: Biweekly core CPI Biweekly CPI	25 May Mexico: Trade balance Brazil: IPCA-15	26 May Mexico: GDP monthly proxy Mar Brazil: Current Account Apr FDI Apr	27 May Mexico: Unemployment Apr Brazil: Central government budget Argentina: Trade balance Apr	28 May Mexico: PS budget balance Brazil: IGP-M

Times shown are local. Private and public agencies and J.P. Morgan. Further details available upon request.

UK and Scandinavia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
3 May Sweden: PMI mfg (8:30am) Apr Norway: PMI Mfg (10:00am) Apr	4 May United Kingdom: M4 & M4 lending final (9:30am) Mar Net lending to individuals (9:30am) Mar PMI Mfg final (9:30am) Apr <u>Overall: 60.7</u> <u>Output: 59.1</u>	5 May United Kingdom: New car regs (9:00am) Apr Sweden: Services PMI (8:30am) Apr Production value index (9:30) Mar Industrial production (9:30am) Mar Household cons. (9:30am) Mar Norway: AKU unemployment (8:00am) Mar House price stats. (11:00am) Apr	6 May United Kingdom: PMI Services final (9:30am) Apr <u>Services: 60.1</u> <u>Composite: 60.0</u> MPC rate announcement and asset purchase target (12:00pm) May BoE monetary policy report (12:00pm) May Decision Maker Panel survey (9:30am) Apr Norway: IP Mfg (8:00am) Mar Norges Bank rate announcement (10:00am) May	7 May United Kingdom: PMI Construction (9:30am) Apr Sweden: Budget Balance (9:30am) Apr
10 May United Kingdom: Halifax HPI (8:30am) Apr Sweden: Riksbank MPM minutes (9:30am) Norway: CPI (8:00am) Apr PPI (8:00am) Apr	11 May United Kingdom: BRC retail sales monitor (12:01am) Apr Sweden: Prospera inflation expectations (8:00am) Apr	12 May United Kingdom: Business investment prelim (7:00am) 1Q Monthly GDP (9:30am) Mar Index of services (7:00am) Mar Industrial production (7:00am) Mar Real GDP prelim (7:00am) 1Q Trade balance (7:00am) Mar Sweden: PES unemployment (6:00am) Apr CPI (9:30am) Apr Norway: GDP (8:00am) 1Q Monthly GDP (8:00am) Mar	13 May United Kingdom: RICS HPI (12:01am) Apr	14 May
During the week: Consumer confidence 2Q (10-30 May)				
17 May United Kingdom: Rightmove HPI (12:01am) May	18 May United Kingdom: Labor market report (7:00am) Apr Norway: Trade balance (8:00am) Apr	19 May United Kingdom: CPI (7:00am) Apr ONS HPI (9:30am) Mar Norway: Building statistics (10:00am) Apr	20 May Sweden: Valueguard house prices (6:00am) Apr	21 May United Kingdom: Gfk cons. conf. (12:01am) May Retail sales (7:00am) Apr PMI Mfg prelim (9:30am) May PMI Services prelim (9:30am) May
During the week: CBI industrial trends May (18-24 May) Wage stats (20-29 May)				
24 May	25 May United Kingdom: Public sector finances (7:00am) Apr Sweden: PPI (9:30am) Apr	26 May Norway: Investments in oil and gas (10:00am) 2Q	27 May United Kingdom: Car manufacturing (12:01am) Apr Sweden: Consumer confidence (9:00am) May Economic Tendency survey (9:00am) Trade balance (9:30am) Apr	28 May Sweden: GDP final (9:30am) 1Q Household lending (9:30am) Apr Retail sales (9:30am) Apr Financial market stats (9:00am) May Norway: Retail sales (8:00am) Apr Labor directorate unemployment (10:00am) May
During the week: CBI distributive trades May (24-28 May) Nationwide HPI (28-3 Jun)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Emerging Europe/Middle East/Africa economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
3 May Czech Republic: PMI (9:30am) Apr Hungary: PMI (9:00am) Apr Turkey: CPI (10:00am) Apr <u>17.2%oya</u> PMI (10:00am) Apr South Africa: Vehicle sales Apr Barclays PMI (11:00am) Apr	4 May Poland: PMI (9:00am) Apr Russia: Manufacturing PMI (9:00am) Apr <u>51.5</u> Nigeria: PMI (8:45am) Apr Serbia: Real GDP (11:00am) 1Q <u>0.2%oya</u>	5 May Poland: NBP rate decision May <u>On hold: 0.10%</u>	6 May Czech Republic: Retail sales (9:00am) Mar CNB rate decision (2:30pm) May <u>On hold: 0.25%</u> Hungary: Industrial output (9:00am) Mar Retail sales (9:00am) Mar Romania: Retail sales (9:00am) Mar Turkey: CBRT rate decision (2:00pm) May <u>On hold: 19.00%</u>	7 May Czech Republic: Industrial output (9:00am) Mar Trade balance (9:00am) Mar Hungary: Trade balance prelim (9:00am) Mar Poland: NBP MPC meeting minutes Apr Russia: CPI (7:00pm) Apr <u>5.5%oya</u> South Africa: Gross reserves (8:00am) Apr Ukraine: CPI (3:00pm) Apr <u>8.7%oya</u>
During the week: Kazakhstan: CPI Apr (4-6 May) Egypt: CPI Apr (8-13 May)				
10 May Romania: Trade balance (9:00am) Mar	11 May Czech Republic: CPI (9:00am) Apr Hungary: CPI (9:00am) Apr Turkey: Current account (10:00am) Mar Industrial output (10:00am) Mar South Africa: Manufacturing output (1:00pm) Mar	12 May Romania: NBR rate decision May Industrial output (9:00am) Mar Russia: Foreign trade (4:00pm) Mar Angola: CPI Apr Ghana: CPI Apr	13 May Romania: CPI (9:00am) Apr Serbia: NBS rate decision (12:00pm) May	14 May Czech Republic: Current account (10:00am) Mar Poland: CPI (10:00am) Apr GDP prelim (10:00am) 1Q Current account (2:00pm) Mar Romania: Current Account Mar Israel: CPI (2:00pm) Apr Ukraine: GDP prelim (3:00pm) 1Q
During the week: Kazakhstan: GDP prelim 1Q (14-17 May)				
17 May Czech Republic: PPI (9:00am) Apr Poland: Core inflation (2:00pm) Apr Russia: GDP flash (7:00pm) 1Q Nigeria: CPI Apr	18 May Hungary: GDP prelim (9:00am) 1Q Romania: GDP flash (9:00am) 1Q Russia: PPI (7:00pm) Apr Israel: GDP flash (1:00pm) 1Q	19 May Russia: Industrial output (7:00pm) Apr South Africa: CPI (10:00am) Apr Retail sales (1:00pm) Mar Mozambique: CBM rate decision May Zambia: BOZ rate decision May	20 May Poland: Average gross wages and Em- ployment (10:00am) Apr South Africa: SARB rate decision May Saudi Arabia: CPI (9:00am) Apr	21 May Poland: PPI (10:00am) Apr
During the week: Poland: Budget balance Apr (17-31 May)				
24 May Poland: Industrial output (10:00am) Apr Retail sales (10:00am) Apr Russia: Retail sales, Unemployment & Investment (7:00pm) Apr Ghana: BOG rate decision May	25 May Hungary: NBH rate decision (2:00pm) May Turkey: Capacity utilization (10:00am) May Nigeria: CBN rate decision May	26 May Poland: Unemployment (10:00am) Apr Kenya: CBK rate decision May	27 May Hungary: Unemployment (9:00am) Mar Zambia: CPI Apr	28 May Hungary: Average gross wages (9:00am) Mar Turkey: Foreign trade (10:00am) Apr South Africa: Budget (2:00pm) Apr

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Non-Japan Asia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
3 May Australia: ANZ job advertisements (11:30am) Apr Hong Kong: GDP flash (4:30pm) 1Q <u>3.8%oya</u> India: PMI mfg. (10:30am) May Indonesia: CPI (11:00am) Apr Korea: PMI mfg. (9:30am) Apr <u>55.0</u> Singapore: PMI (9:00pm) Apr <u>51.0</u> Taiwan: PMI mfg. (8:30am) Apr <u>60.5</u> <i>Holiday: China, Thailand</i>	4 May Australia: Trade balance (11:30am) Mar <u>A\$6.8bn</u> RBA official rate announcement (2:30pm) May <u>No change</u> Hong Kong: Retail sales (4:30pm) Mar <u>25.8%oya</u> Korea: CPI (8:00am) Apr <u>2.2%oya</u> <i>Holiday: China, Thailand</i>	5 May Australia: Building approvals (11:30am) Mar Indonesia: GDP (11:00am) 1Q <u>-0.3%oya</u> New Zealand: Unemployment rate (8:45am) 1Q <u>5.3%</u> ANZ commodity price (1:00pm) Apr Philippines: CPI (9:00am) Apr <u>4.6%oya</u> Thailand: CPI (10:30am) Apr <u>2.5%oya</u> BOT monetary policy meeting (2:05pm) May <u>No change</u> <i>Holiday: China, South Korea</i>	6 May Malaysia: BNM monetary policy meeting (3:00pm) May <u>No change</u> New Zealand: Building permits (10:45am) Apr NBNZ business confidence (1:00pm) May Taiwan: CPI (4:00pm) Apr <u>1.9%oya</u>	7 May China: Foreign Exchange Reserves Apr <u>US\$3.2tn</u> Trade balance Apr <u>US\$30.1bn</u> Korea: Current account balance (8:00am) Mar <u>US\$7.6bn</u> Philippines: Trade balance (9:00am) Mar <u>US\$-2.6bn</u> Taiwan: Trade balance (4:00pm) Apr <u>US\$3.2bn</u>
During the week: China: Money supply/TSF Apr (9-15 May)				
10 May Australia: NAB business confidence (11:30am) Apr Retail sales final (11:30am) Mar	11 May China: CPI (9:30am) Apr PPI (9:30am) Apr Malaysia: Current acct. Balance (12:00pm) 1Q GDP (12:00pm) 1Q Philippines: GDP (10:00am) 1Q	12 May India: CPI (5:30pm) Apr IP (5:30pm) Mar Korea: Unemployment rate (8:00am) Apr	13 May Korea: Money supply (12:00pm) Mar	14 May New Zealand: Business NZ PMI (10:30am) Apr Hong Kong: GDP (4:30pm) 1Q India: WPI (12:00pm) Apr Korea: Export price index (6:00am) Apr Import price index (6:00am) Apr
During the week: India: Trade balance Mar (12-15 May)				
17 May China: FAI (10:00am) Apr IP (10:00am) Apr Retail sales (10:00am) Apr Singapore: NODX (8:30am) Apr Thailand: GDP (9:30am) 1Q	18 May	19 May	20 May Australia: Unemployment rate (11:30am) Apr Hong Kong: Unemployment rate (4:30pm) Apr Indonesia: Trade balance (11:00am) Mar Taiwan: Export orders (4:00pm) Apr	21 May Australia: Retail sales (11:30am) Mar Hong Kong: CPI (4:30pm) Apr Korea: PPI (6:00am) Apr
24 May New Zealand: Retail sales (10:45am) 1Q Indonesia: Current acct. Balance (10:00am) 1Q Singapore: CPI (1:00pm) Apr Taiwan: IP (4:00pm) Apr Unemployment rate (4:00pm) Apr	25 May Korea: Consumer survey (6:00am) May Singapore: IP (1:00pm) Apr	26 May New Zealand: Trade balance (10:45am) Apr RBNZ official rate announcement (2:00pm) May Korea: FKI Business Survey (6:00am) Apr Malaysia: CPI (12:00pm) Apr	27 May Hong Kong: Trade balance (4:30pm) Apr	28 May Malaysia: Trade balance (12:00pm) Mar
During the week: Vietnam: CPI May (25-31 May) Thailand: Mfg. Production Apr (26-30 May) Thailand: IP Apr (27-30 May)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
1 - 7 May	3 May	4 May	5 May	6 May	7 May
	Brazil • Trade balance (Apr) Hong Kong • GDP (1Q) Indonesia • CPI (Apr) Turkey • CPI (Apr) United States • ISM mfg (Apr) • Light vehicle sls (Apr) • SLOOS (2Q) Global • Manufacturing PMI (Apr)	Australia • RBA mtg: no chg Korea • CPI (Apr) United States • Factory goods (Mar) • Trade balance (Mar)	Brazil • BCB mtg: +75bp • IP (Mar) Indonesia • GDP (1Q) Poland • NBP mtg: no chg Thailand • BoT mtg: no chg United Kingdom • New car regs (Apr) United States • ADP employment (Apr) • ISM non-mfg (Apr) Global • All-industry PMI (Apr)	Czechia • CNB mtg: no chg Euro area • Retail sales (Mar) Germany • Mfg orders (Mar) Japan • Auto registrations (Apr) Malaysia • BNM mtg: no chg Norway • Norges Bank mtg: no chg Taiwan • CPI (Apr) Turkey • CBRT mtg: no chg United Kingdom • BoE mtg: no chg United States • Prod and costs (1Q)	Brazil • Retail sales (Mar) China • FX reserves (Apr) • Trade balance (Apr) Germany • IP (Mar) • Trade balance (Mar) Mexico • CPI (Apr) Russia • CPI (Apr) Taiwan • Trade balance (Apr) United States • Consumer credit (Mar) • Wholesale trade (Mar) • Labor mkt report (Apr)
8 - 14 May	10 May	11 May	12 May	13 May	14 May
China • Money supply/TSF (Apr)		Brazil • CPI (Apr) China • CPI (Apr) Japan • BoJ mtg: no chg Malaysia • GDP (1Q) Philippines • GDP (1Q) Turkey • IP (Mar) United States • JOLTS (Mar) • NFIB srvy (Apr)	Euro area • IP (Mar) India • CPI (Apr) • IP (Mar) Japan • CAI (Mar) Mexico • IP (Mar) Romania • NBR mtg: no chg United Kingdom • GDP (1Q, prl) • IP (Mar) • Trade balance (Mar) United States • CPI (Apr)	Chile • BCC mtg: no chg Japan • Econ watchers srvy (Apr) Mexico • Banxico mtg: no chg Peru • BCRP mtg: no chg Philippines • BSP mtg: no chg United States • PPI (Apr)	Colombia • GDP (1Q) Poland • GDP (1Q) United States • Business inventories (Mar) • Import prices (Apr) • IP (Apr) • Retail sales (Apr) • UMich cons snt (May, prl)

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